



HANDOUT OF TALKSHOW ON INDONESIA MEDIUM-TERM ECONOMIC OUTLOOK: CONTINUING STRUCTURAL REFORM AMID GLOBAL TURMOIL

Minister of National Development Planning Agency/
Head of National Development Planning Agency

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Outline

- 1 Domestic Economic Challenges: Lagging Structural Transformation Process
- 2 Medium-Term Target and Agenda for Indonesia's Economic Development
- 3 SDGs Roadmap – Strategic Document for Implementing SDGs
- 4 SDGs Financing Strategy
- 5 Leveraging Digital/Creative Economy



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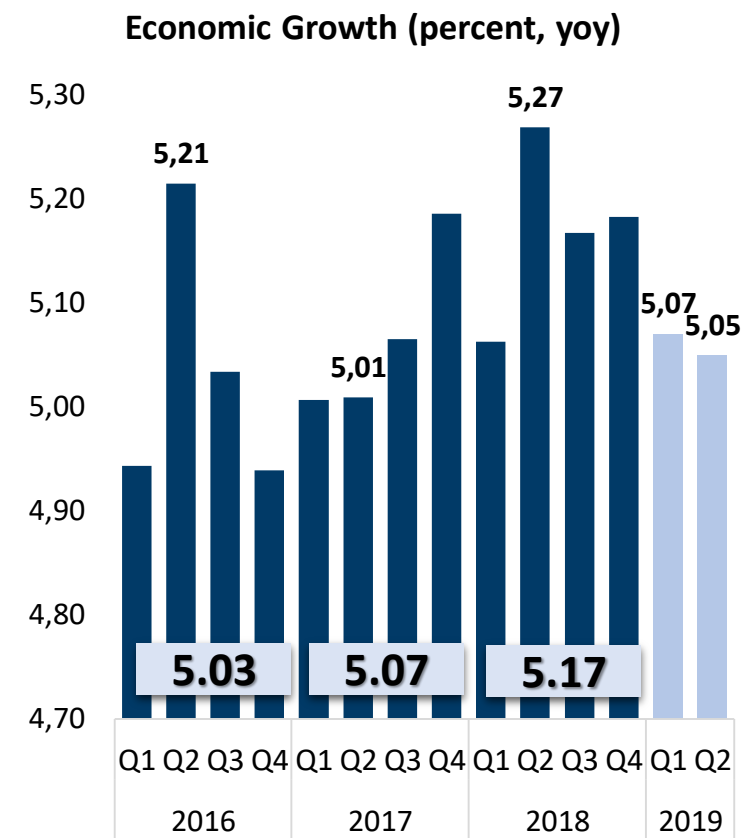
Domestic Economic Challenges: Lagging Structural Transformation Process



Lower Economic Growth Compared to The Past



Source: BPS, CEIC (calculated)

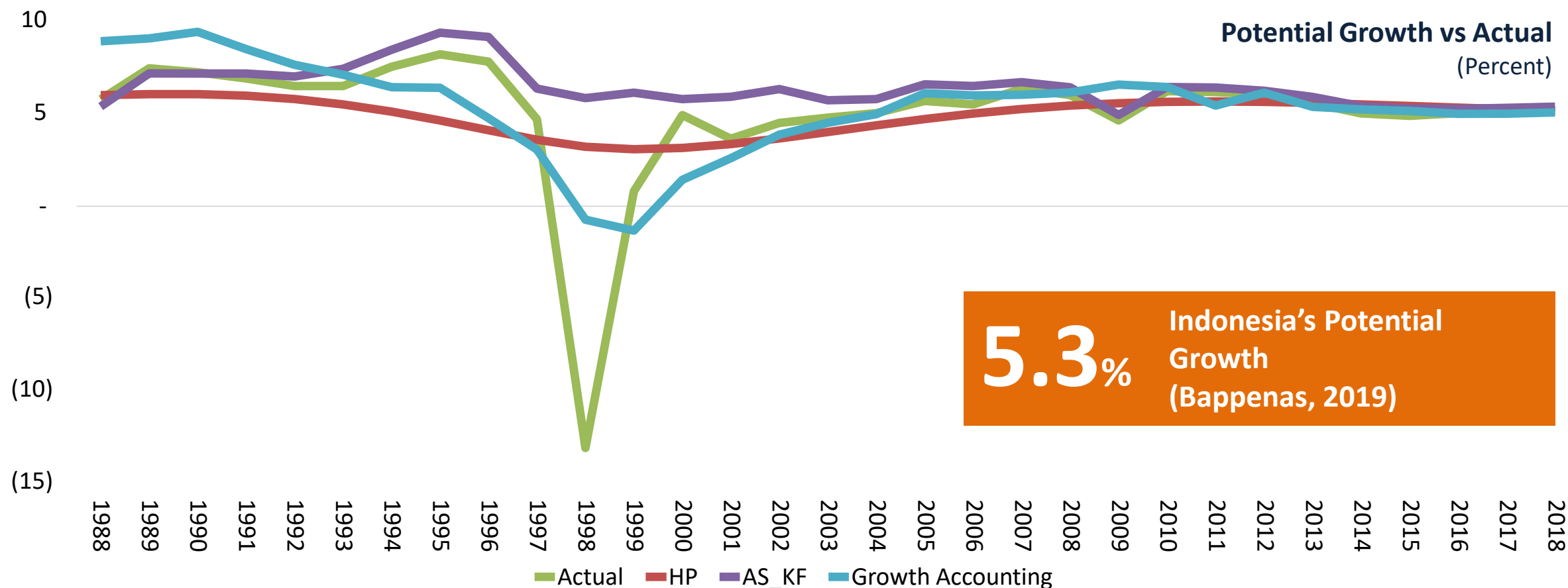


Indonesia economic growth is **slowing down and tends to stagnate**

Extra efforts are needed to boost Indonesia's economic growth



Declining Potential Growth



Bappenas estimates the potential growth calculation using three methods:

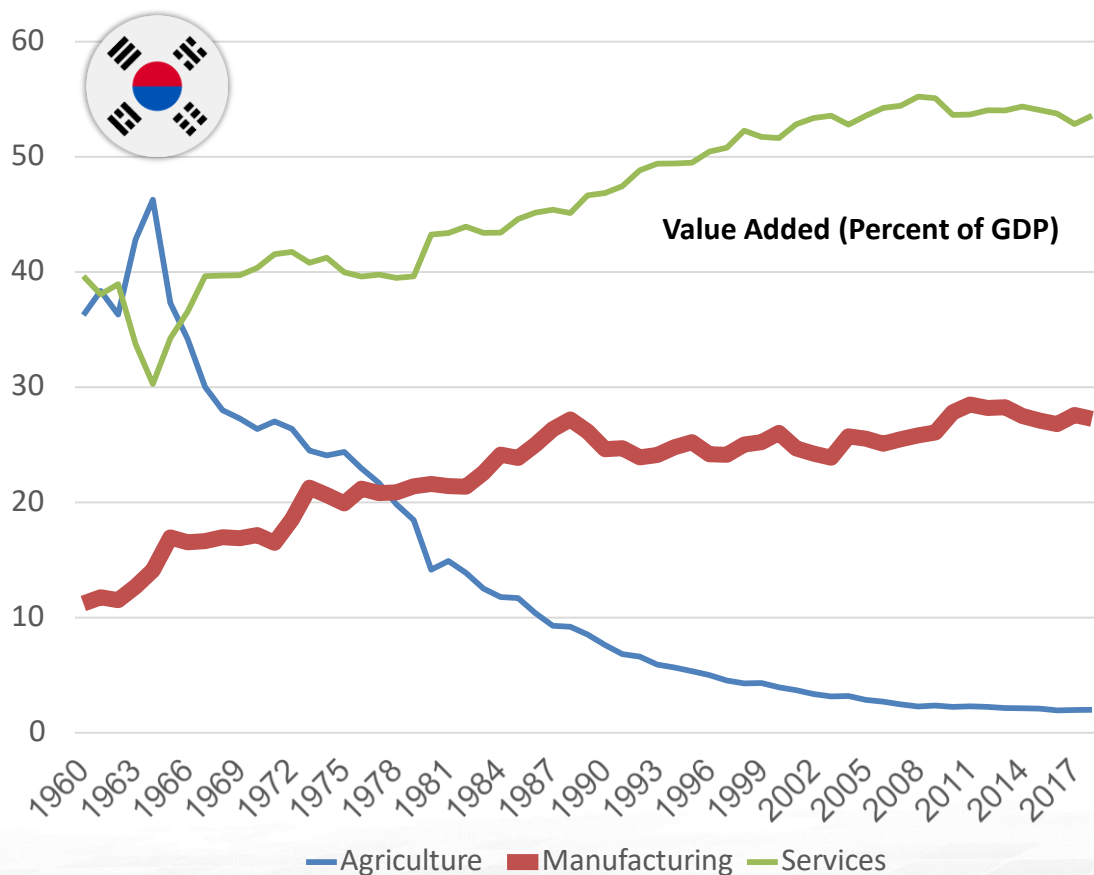
(1) **Hodrick-Prescott Filter**; (2) **Aggregate Supply** using **Multivariate Kalman Filter**; dan (3) **Growth Accounting**.

- Indonesia's potential growth tends to decline until 2018.
- International institutions estimation (ADB, OECD, IMF, ADB-Bappenas) also shows the same pattern.

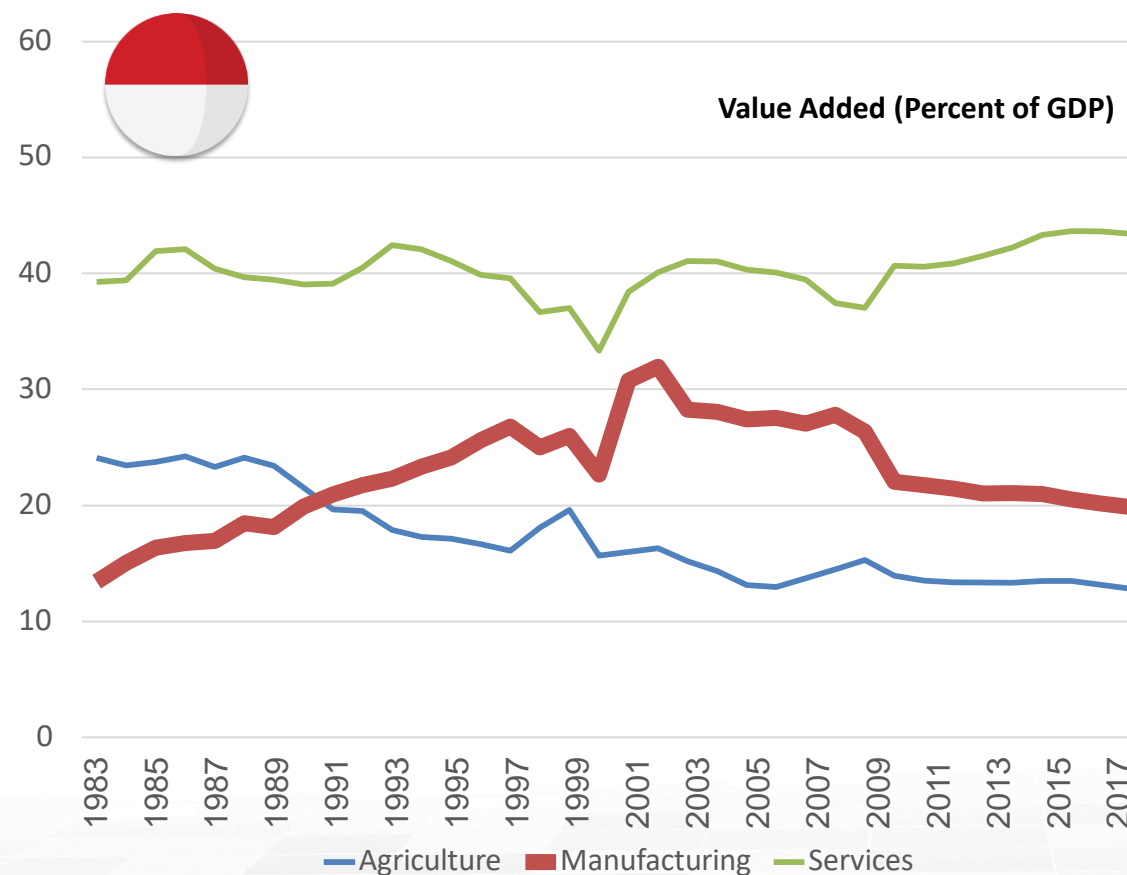


Due to Unideal Structural Transformation

Share of agriculture decreased to below 10 percent, share of manufacturing reached 30 percent in a long time (industrialization), then followed by the development of the service sector.



After the Asian crisis, the decline in agricultural shares stagnated, while manufacturing shares continued to decline, indicating **early deindustrialization phenomenon**.

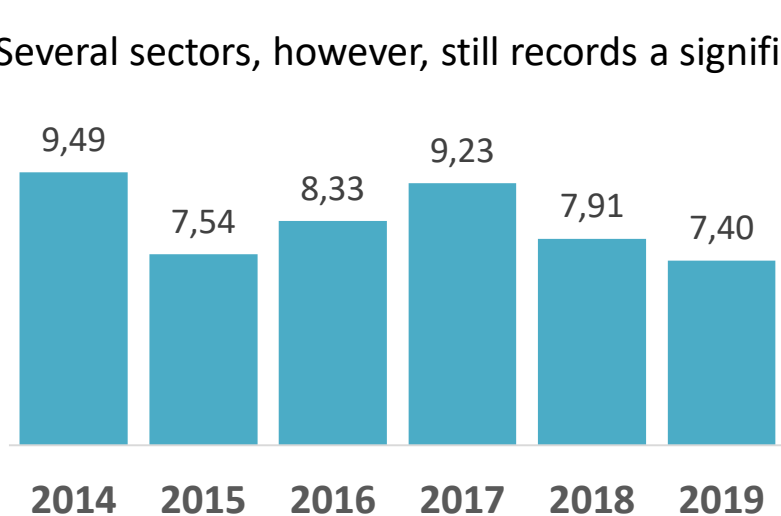


Source: World Development Indicators dan BPS calculated)

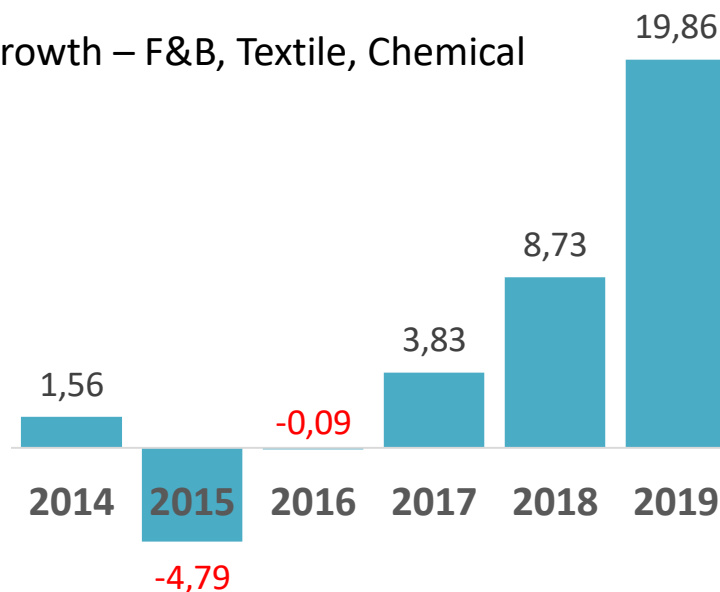


Manufacturing Growth Keeps Declining

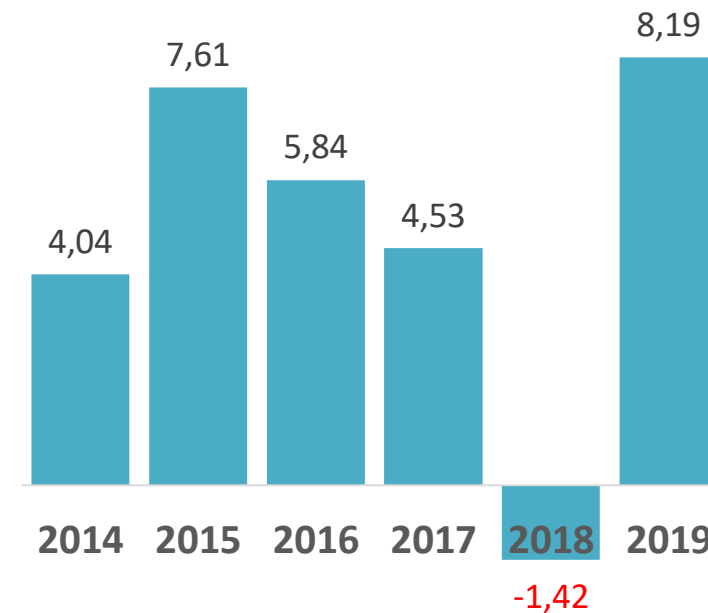
Several sectors, however, still records a significant growth – F&B, Textile, Chemical



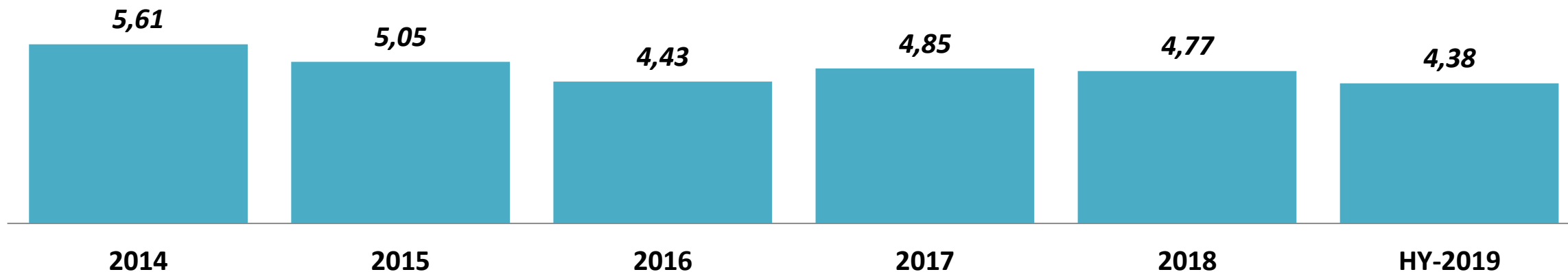
Food and Beverages



Textile and Garment



Chemical and Pharmaceutical

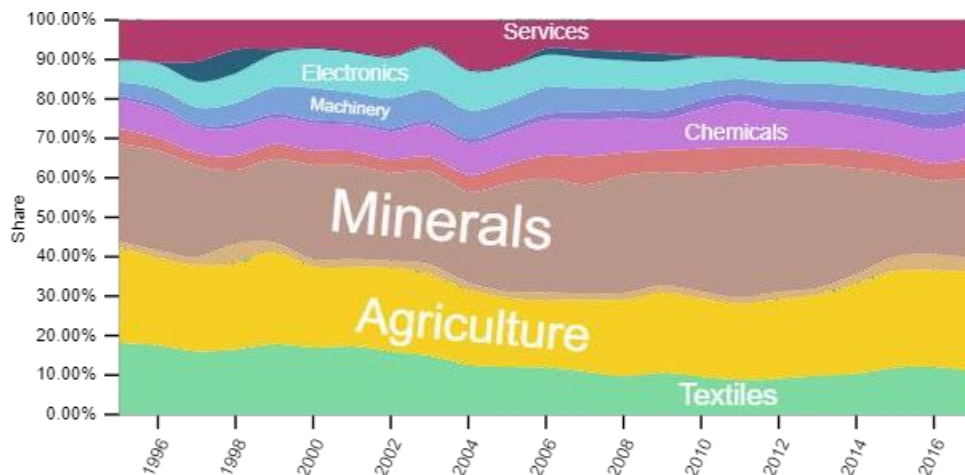


■ Non O&G Manufacture Growth

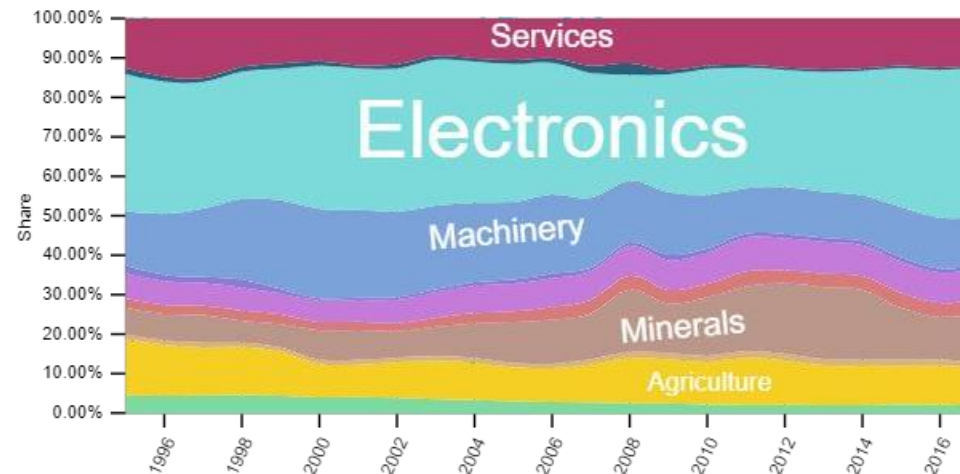


Exports are still Dominated by Commodities

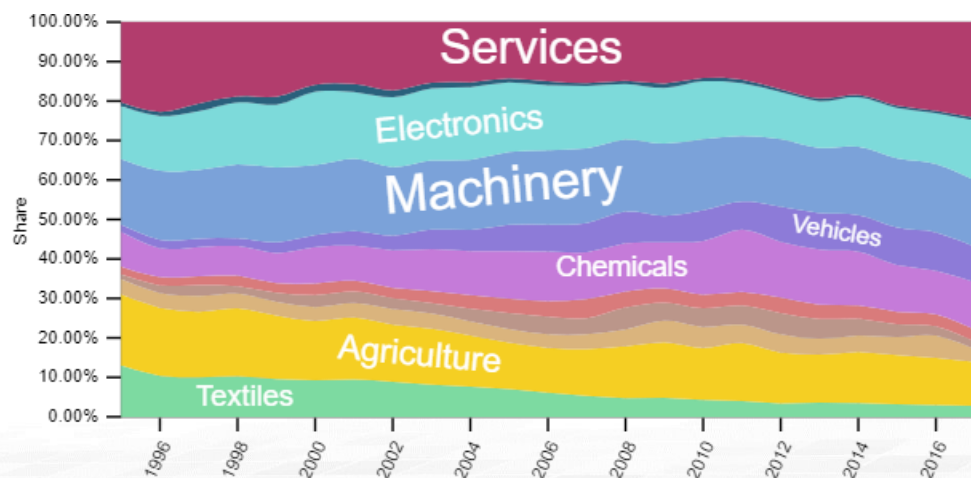
INDONESIA



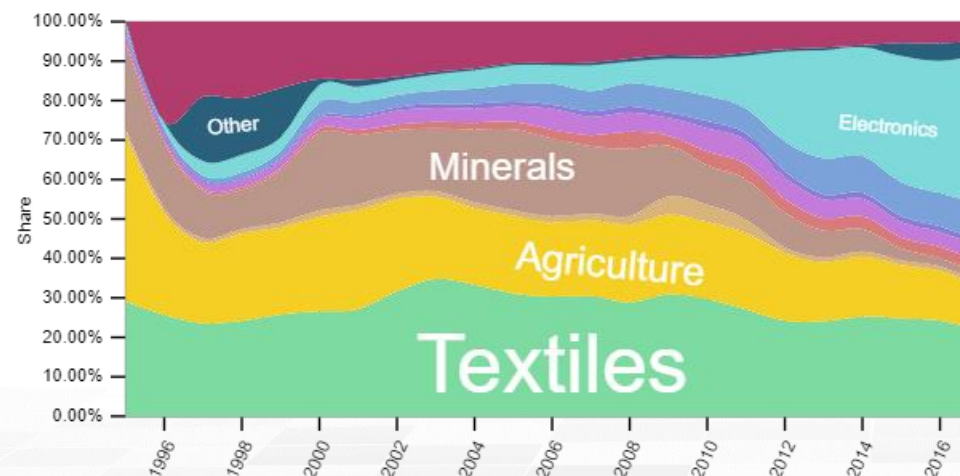
MALAYSIA



THAILAND



VIETNAM

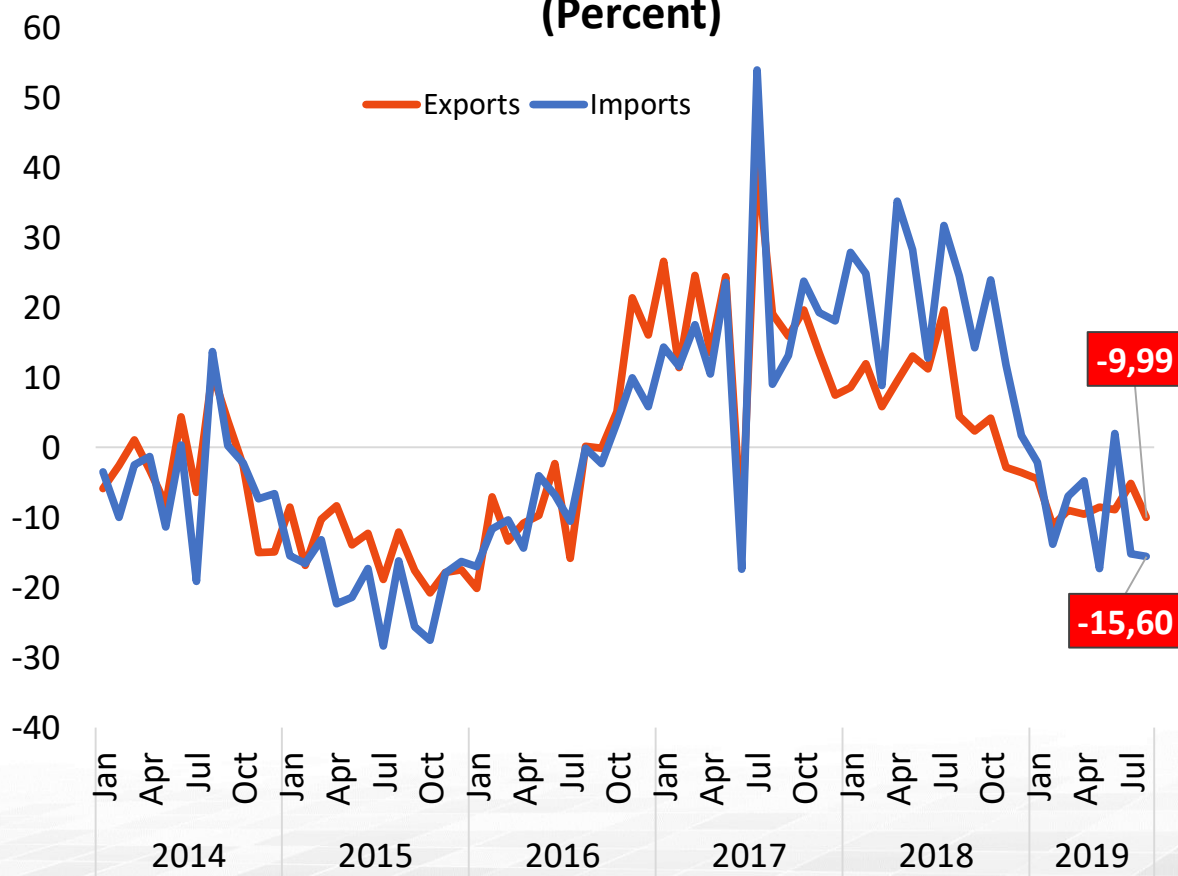




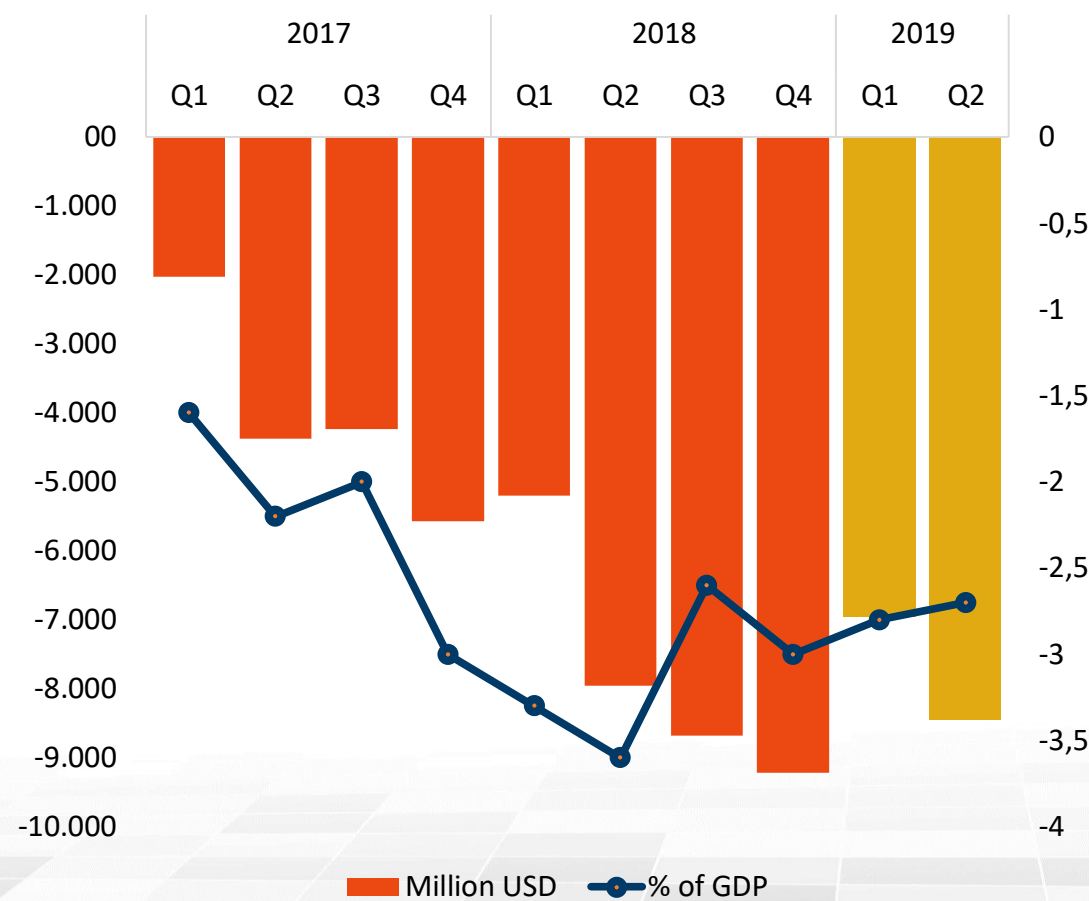
Pressure on Balance of Payments

Sluggish export performance will have an impact on the widening current account deficit, estimated at USD32 billion (2.9 percent of GDP) by the end of 2019.

Monthly Exports and Imports Growth (Percent)



Current Account Deficit



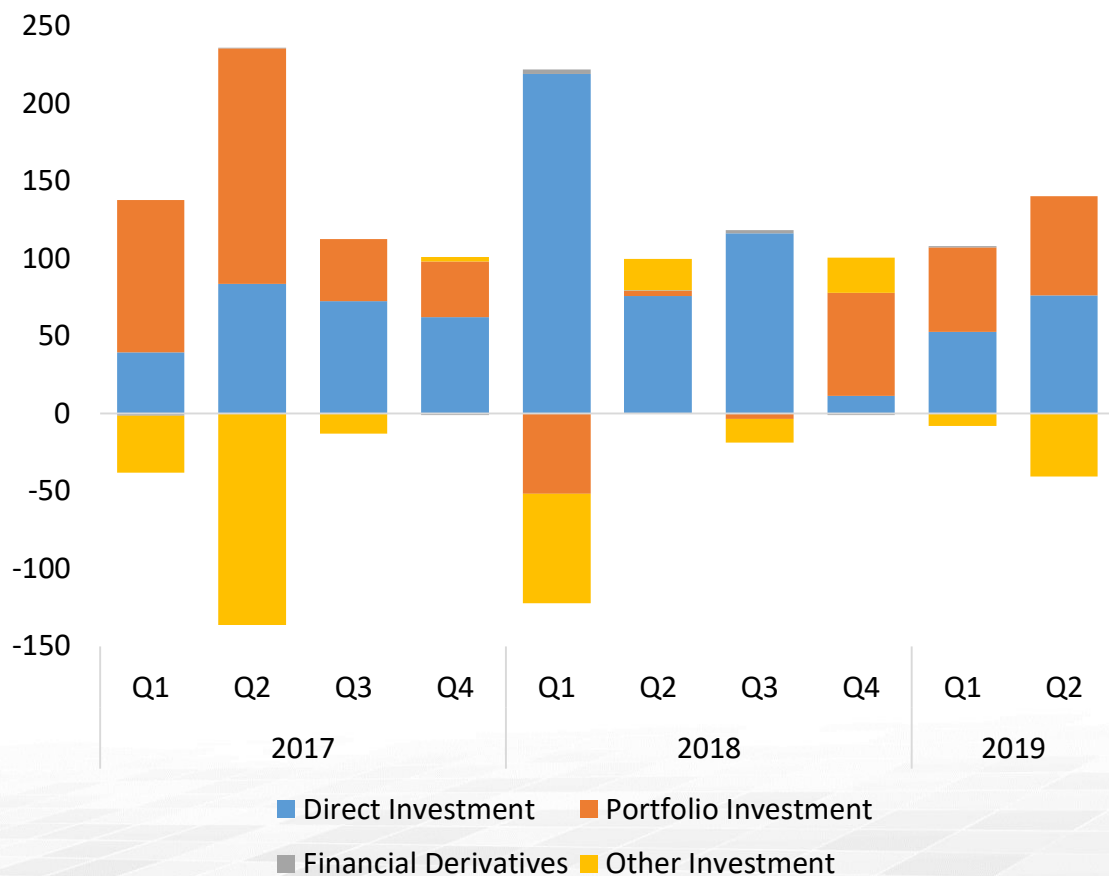


Pressure in the Portfolio Investment and Capital Flows

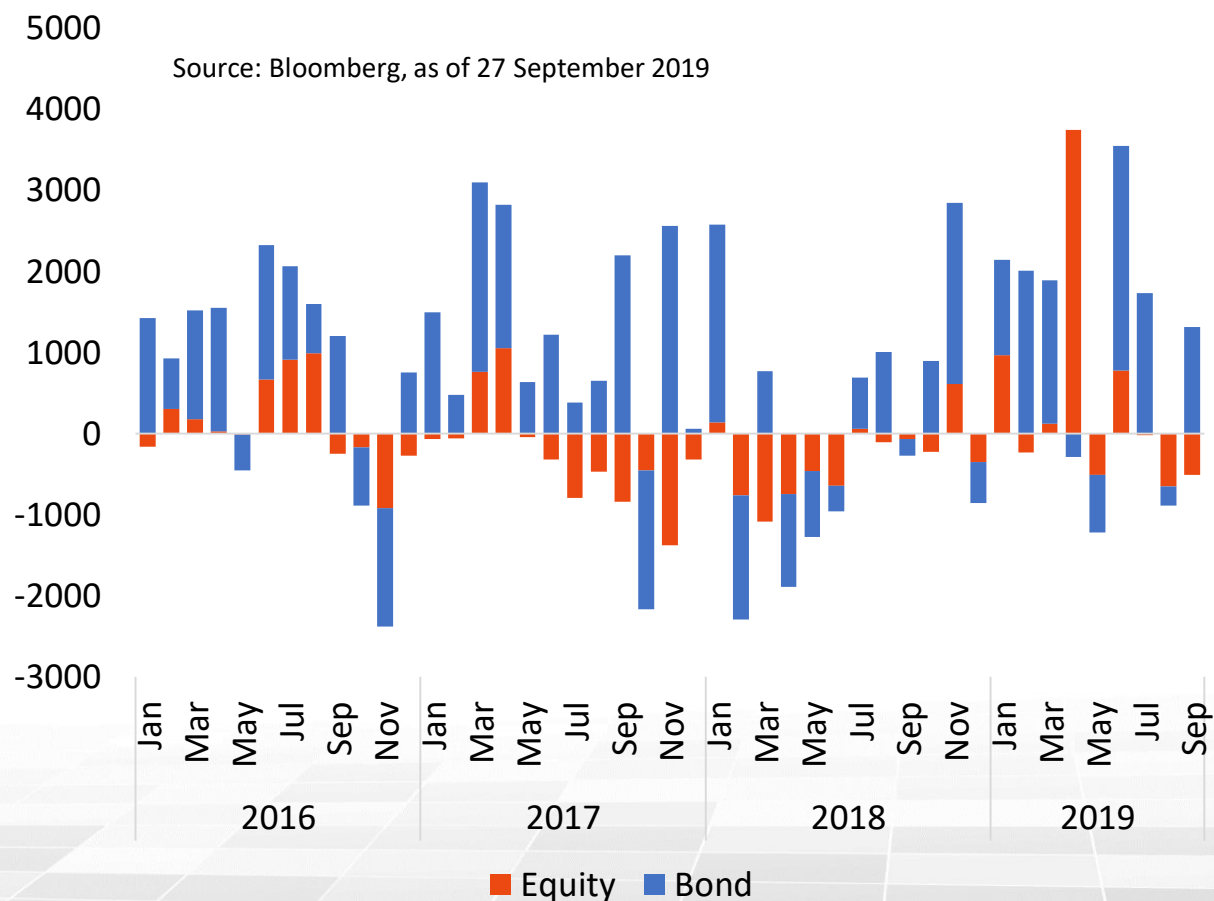
Indonesia still relies on portfolio investment to finance the current account deficit. The problem is increased global financial volatility trigger capital outflows. Indonesia needs to rely more on FDI

Source: BPS, as of August 2019

Financial Account (Proposition, Percent)



Indonesia Capital Flows (MTD - Million USD)



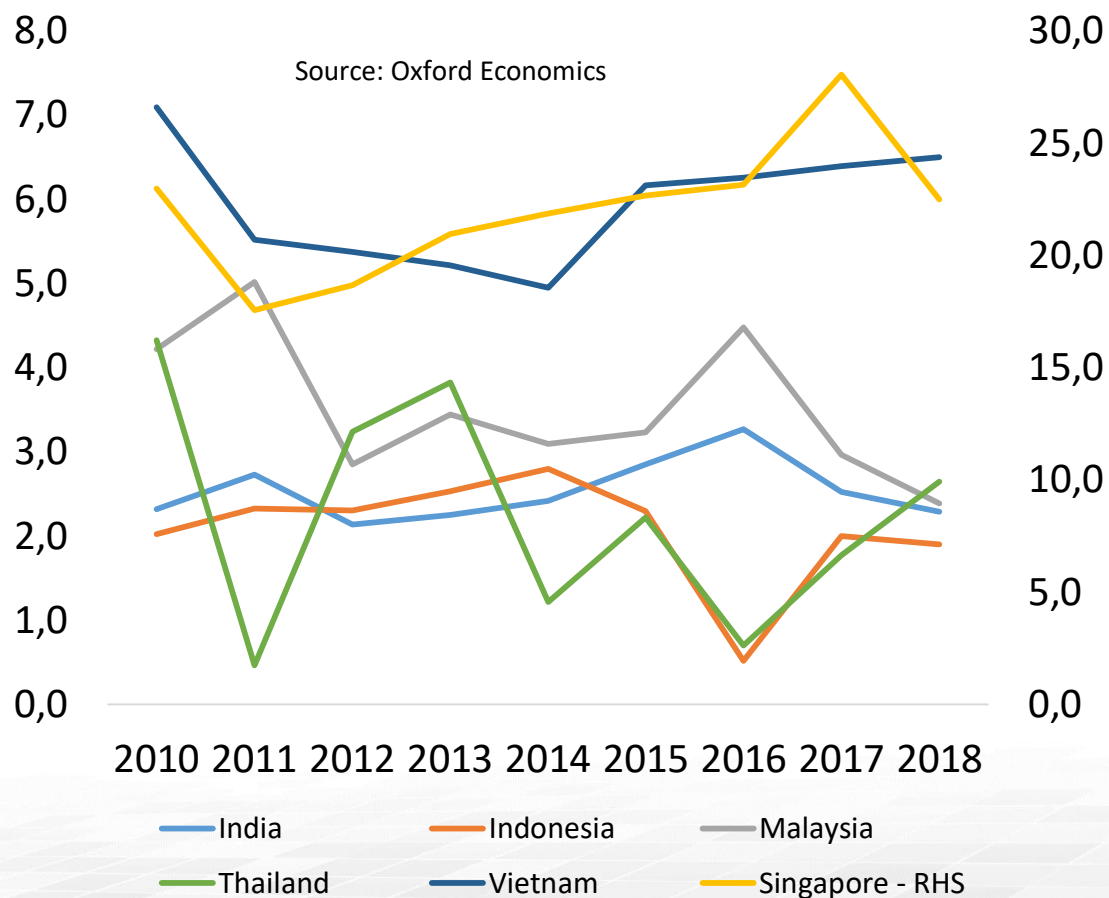


Indonesia's FDI is still Limited

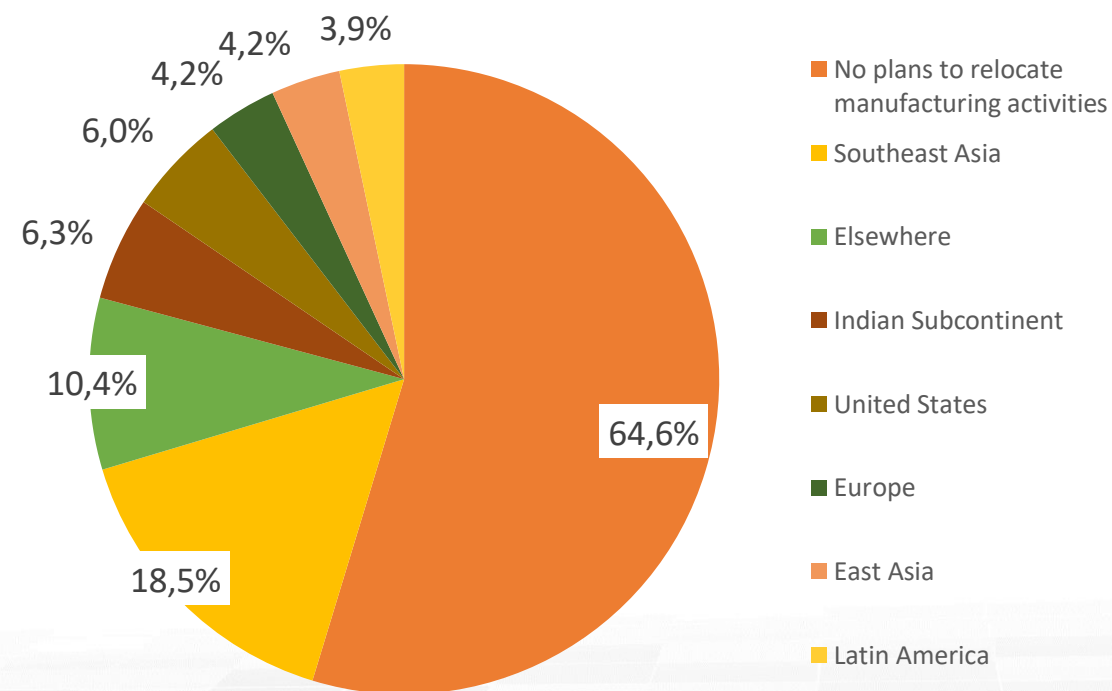
Indonesia's FDI is relatively low compared to other countries. There is potential to capture industrial relocation out of China

FDI (Percent, GDP)

Source: Oxford Economics



Outcome of China Exit Industry Relocation Plan Survey (Percent)



Source: AmCham



However, None is Relocating to Indonesia

Selected Company	Target Country	Affected Goods
Pegatron (Taiwan)	India	Some telecom equipment (may also relocate to Vietnam)
Skechers USA (Amerika)		Shoes (may also relocate to Vietnam)
Apple (Amerika)		Latest iPhone model
Iris Ohyama (Japan)	South Korea	Fans
Komatsu (Japan)	Japan	Construction equipment components (already relocated some production to US and Thailand)
Toshiba Machine (Japan)		Injection molding machines for plastic parts (already relocated to Thailand)
Keihin (Japan)		Auto parts
Sumitomo Heavy Industries (Japan)		Robot Components
G-Tekt (Japan)		Auto parts
Mitsubishi Electric (Japan)		Laser processing machines
Casio Computer (Japan)		Wristwatches
Ricoh (Japan)	Thailand	Printers
Citizen Watch (Japan)		Wristwatches
Panasonic (Japan)		Stereos, other in-car equipment

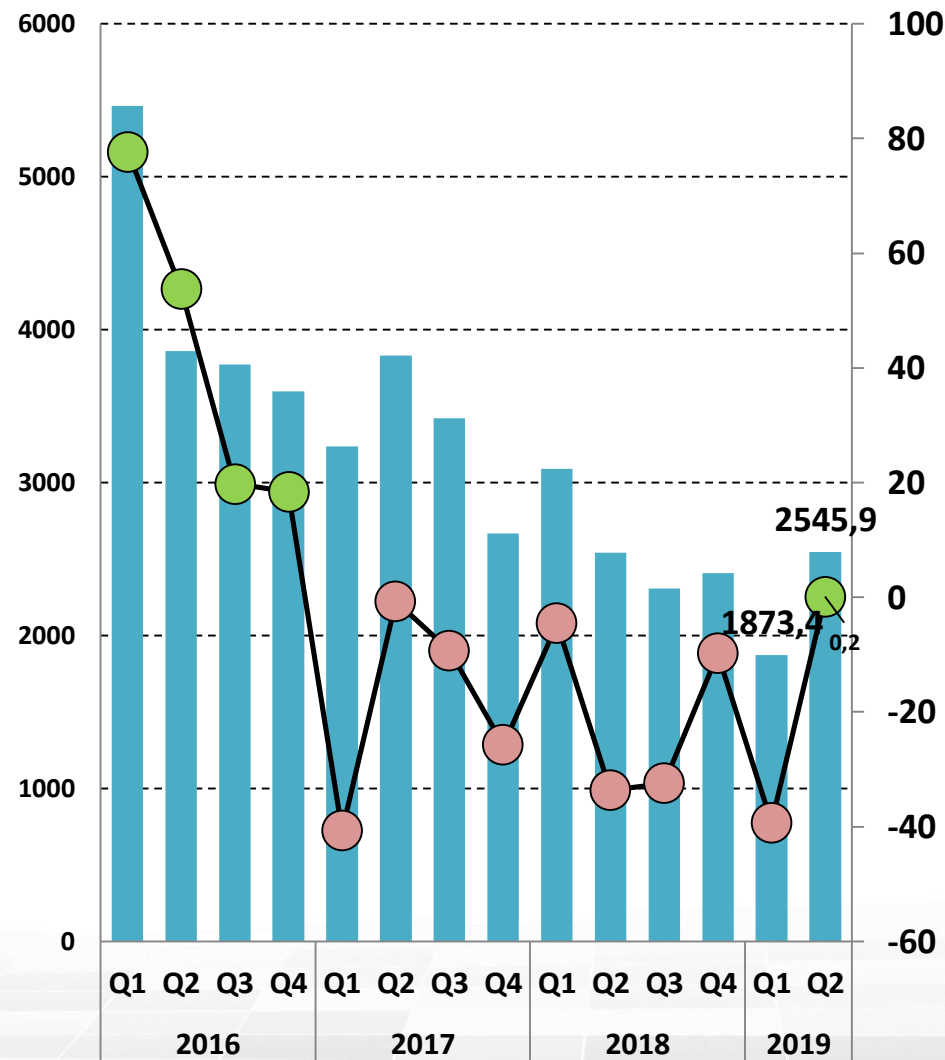
Selected Company	Country Target	Affected Goods
Asustek Computer (Taiwan)	Taiwan	PC
Compal Electronics (Taiwan)		Router, other telecom equipment
HP (Amerika)		PC (may also relocate to Vietnam or Philippines)
Dell (Amerika)		PC (may also relocate to Vietnam or Philippines)
Mitsuba (Japan)	Amerika	Auto parts (partly relocated to Vietnam)
Asics (Japan)	Vietnam	Running shoes
Kyocera (Japan)		Printers
Sharp (Japan)		PC
Nintendo (Japan)		Video game consoles
TCL (China)		TVs
Brooks Sports (Amerika)		Running shoes
GoerTek (China)		Wireless earphones for Apple
Nidec (Japan)	Meksiko	Auto parts, home appliance parts
Funai Electric (Japan)		LCD TVs (already relocated to Thailand)
GoPro (Amerika)		Small video cameras

Source: *Company announcements and media reports (NIKKEI)*



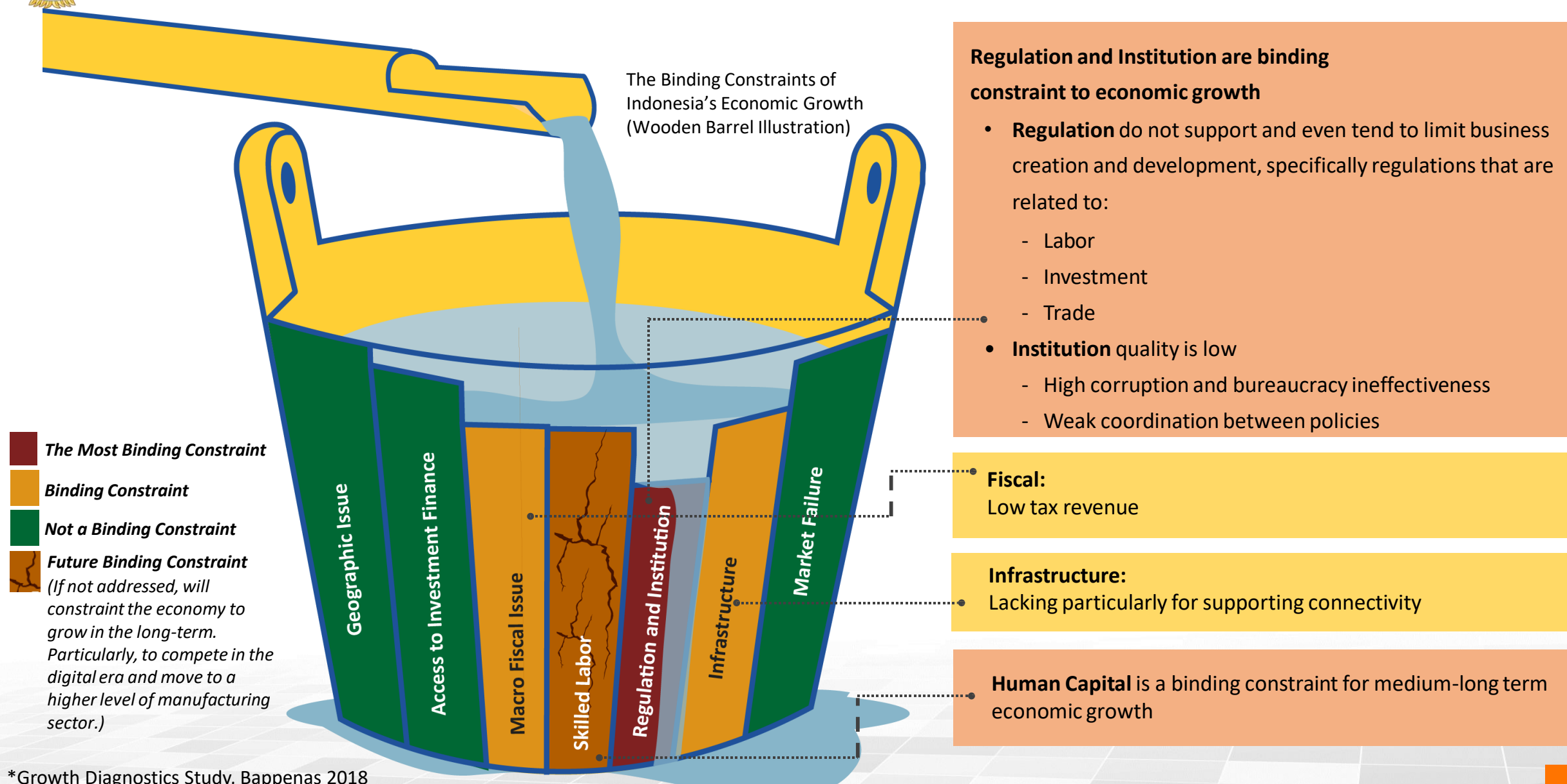
Indonesia Manufacturing FDI is Still on Declining Trend

Manufacturing Foreign Investment (Million USD)	2017	2018	HY-2019
Growth (%)			
Food and Beverage	1,970	1,307	707
	-6.8	-33.6	20.5
Textile	372	305	114
	15.8	-18.0	-22.0
Leather, Leather Product and Shoes	369	244	106
	155.5	-34.0	-34.7
Woods	396	276	27
	47.9	-30.2	-61.4
Pulp, Pulp and Paper, Printings	606	668	87
	-78.3	10.2	-80.6
Basic Chemical, Chemical Products and Pharmaceutical	2,578	1,938	705
	-10.8	-24.8	-33.5
Rubber, Rubber Products and Plastics	633	447	202
	-14.1	-29.4	-35.1
Non-Metal Minerals	672	456	254
	-37.6	-32.1	30.4
Basic Metal, Metal Products, Non-Machinery and Tool	2,969	2,219	1,469
	-3.2	-25.3	22.1
Machinery, Electronics and Others Industries	817	1,341	244
	-2.4	64.1	-76.4
Transportations	1,271	971	412
	-46.3	-23.6	19.9
Other Industries	504	174	92
	571.2	-65.5	29.6
TOTAL	13,159	10,348	4,419
	-21.2	-21.4	-21.5



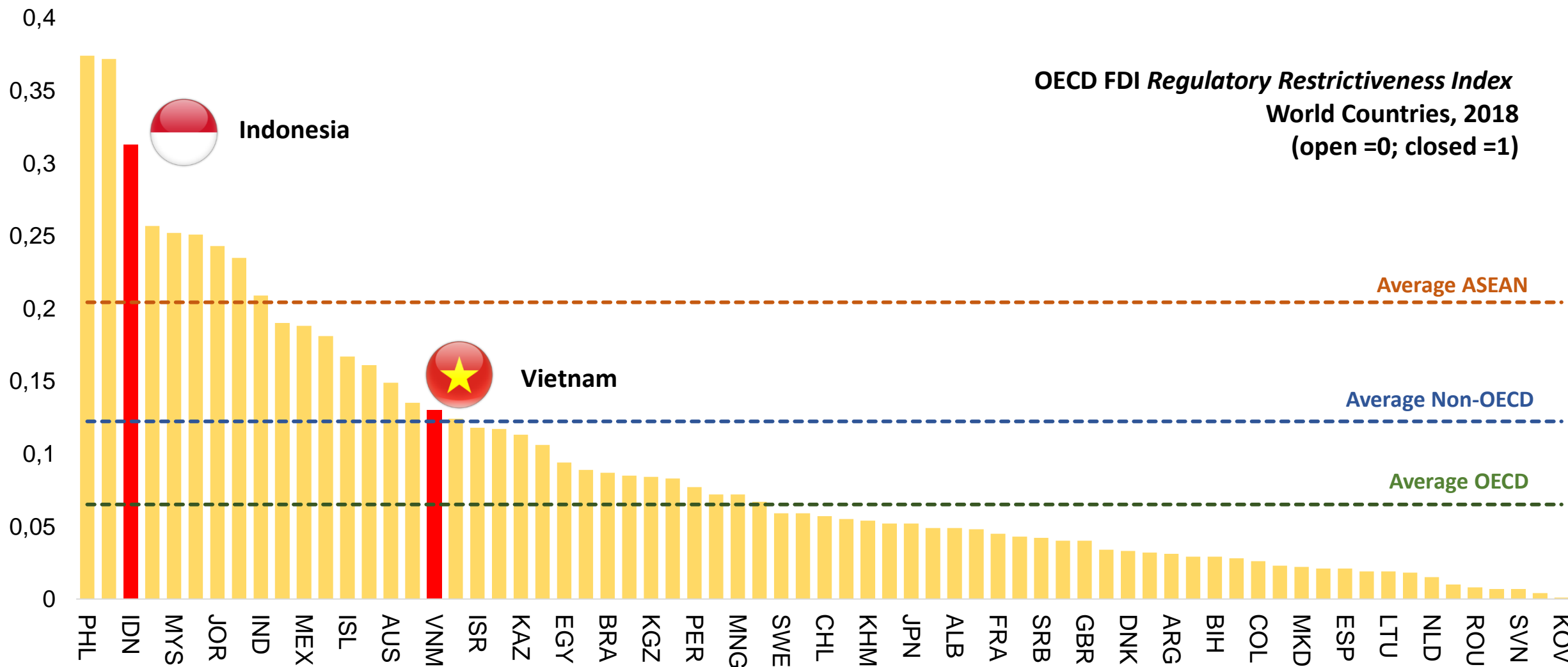


Regulation and Institutions Become the Most Binding Constraint





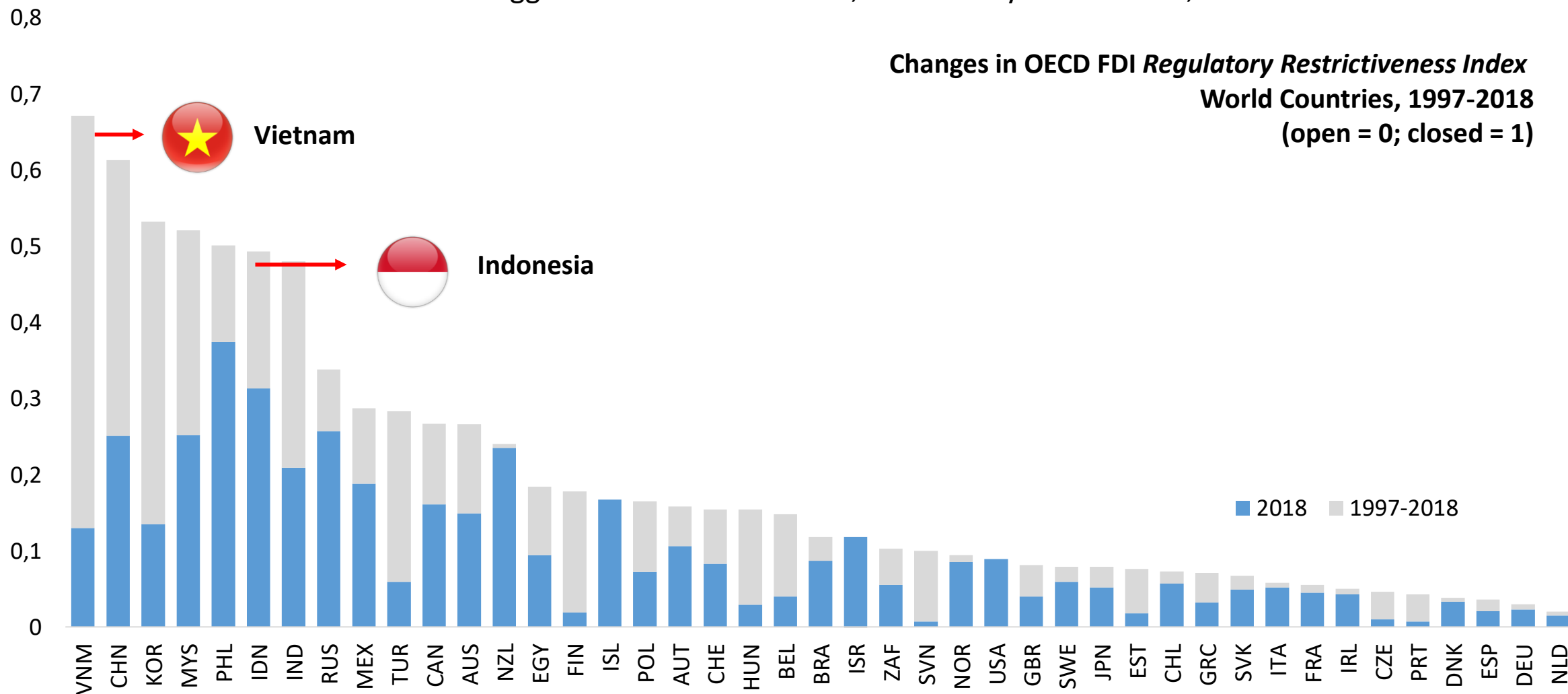
In Terms of FDI Regulations, Indonesia is One of The Most Restricted Countries





There is Improvement, but Not as Fast Other Countries

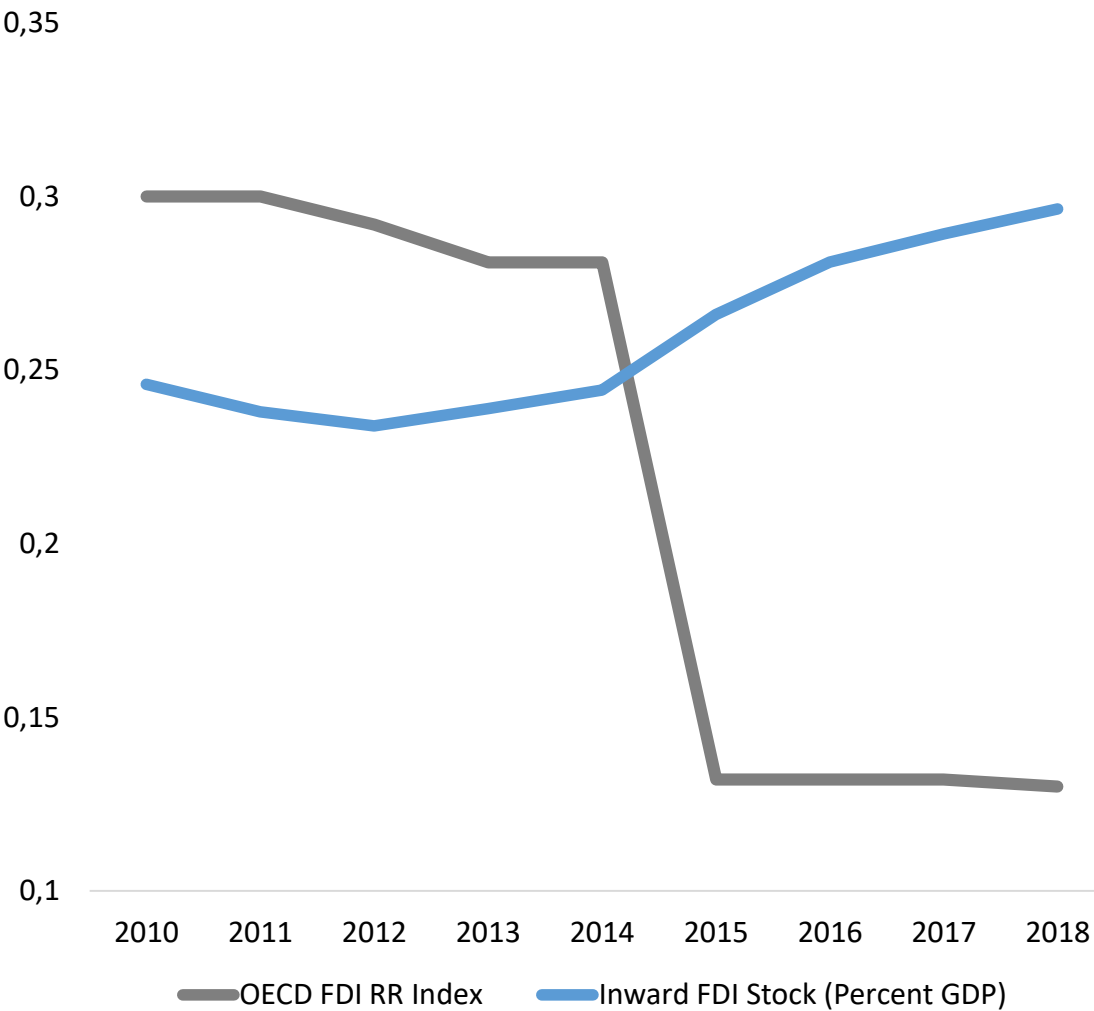
Vietnam has been the biggest reformer since 1997, followed by South Korea, China and India



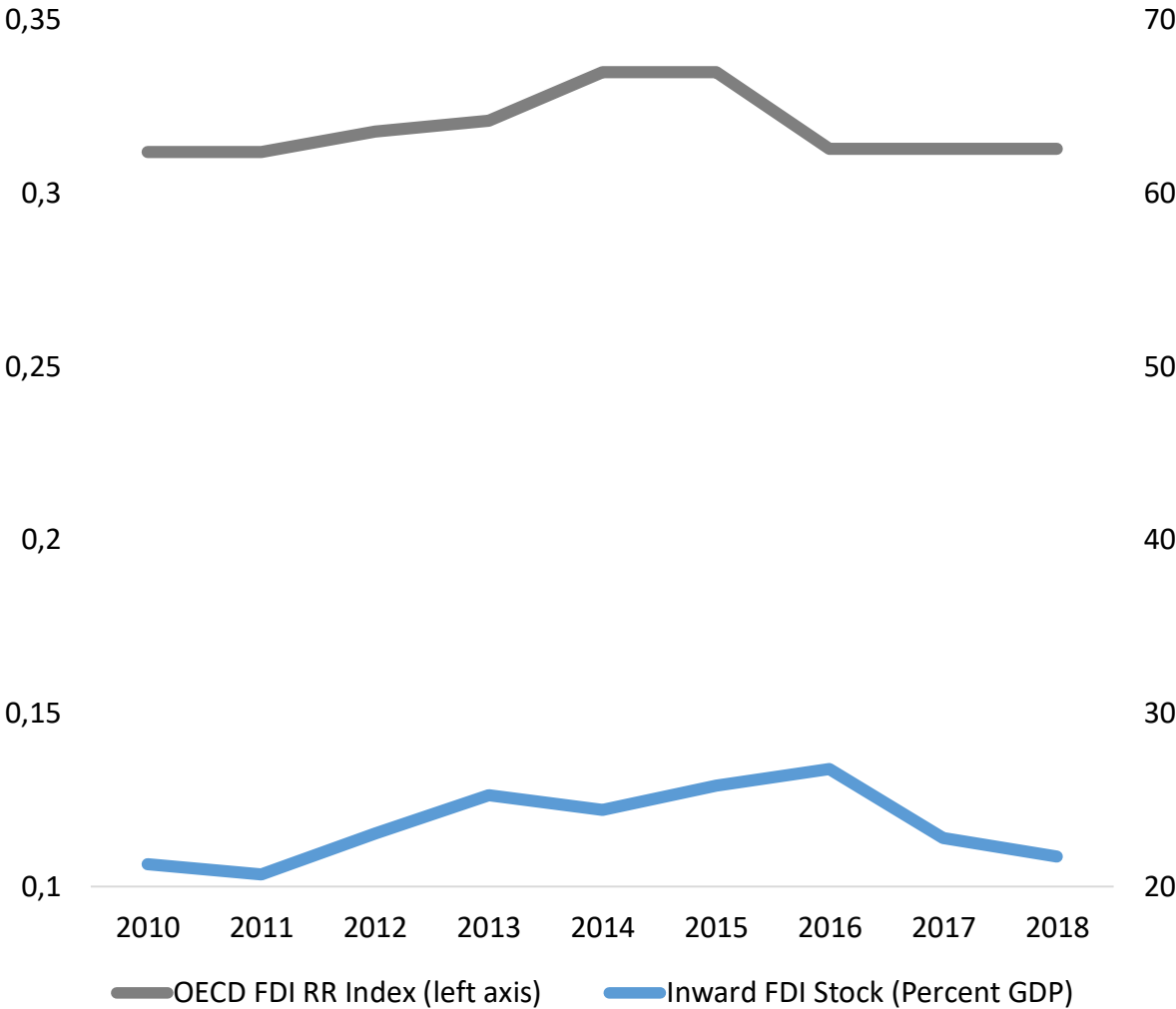


FDI Restrictiveness Index Positively Correlates with FDI Stock

Vietnam



Indonesia





2 Medium-Term Target and Agenda for Indonesia's Economic Development



Indonesia 2045: Towards a High-Income Country and One of the Largest GDP in the World

In the period 2016 - 2045, Indonesian economy aspires to grow by 5.7 percent per year by continuing structural reforms utilizing bonus demographics and technological advances, and increasing economic competitiveness. Indonesia aims to be a high-income country in 2036 and the 5th largest GDP in 2045. High and inclusive economic growth will increase the number of middle-income classes to around 70 percent of Indonesia's population by 2045.

Economic Growth Scenario

1986 - 2015		Scenario 2016 - 2045	
		Baseline	High
5.1	Economic Growth	5.1	5.7
16	World GDP Ranking*		
3,378	GDP per Capita* (USD)	19,794	23,199
	Year as a High-Income Country	2038	2036
32.8 6.4	Investment Share* Growth	33.1 5.4	38.1 6.4
21.1 6.3	Industry Share* Growth	22.5 5.2	26.0 6.3
13.5 3.1	Agriculture Share* Growth	7.8 3.0	7.4 3.2

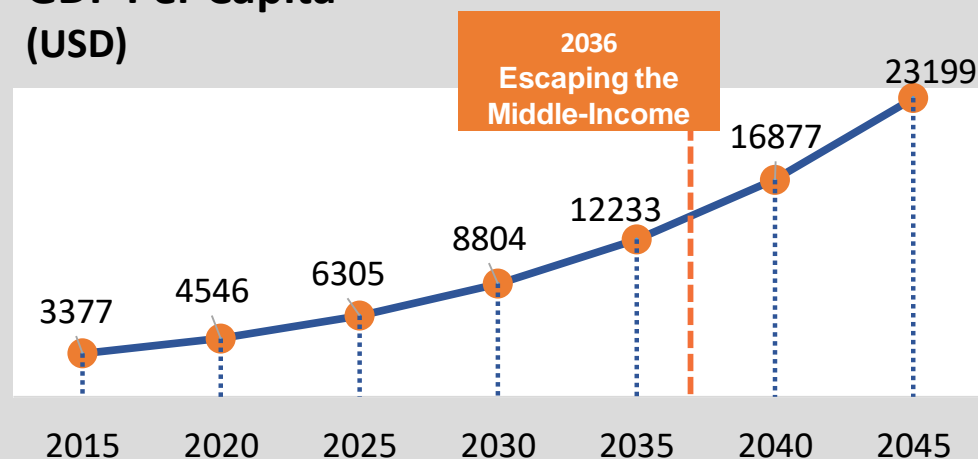
Source: Bappenas' Calculation

*) End of Period

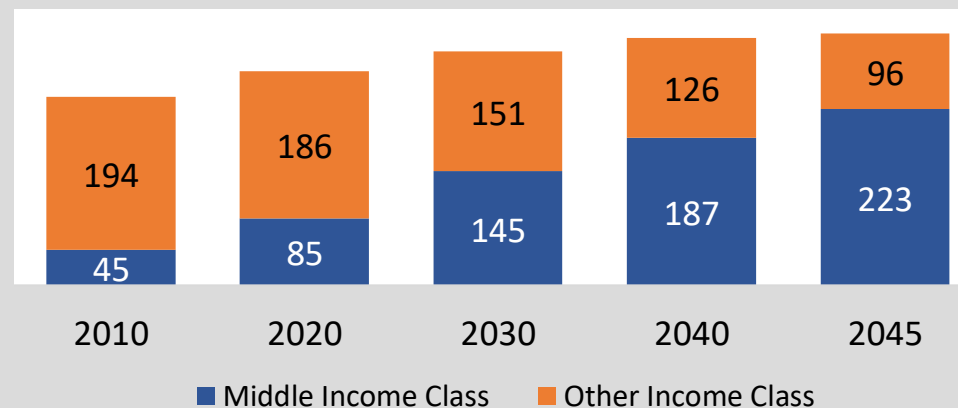
**) Baseline: Low world economic growth and business as usual structural reforms

High: Structural reforms are as expected and world economic growth is relatively high

GDP Per Capita (USD)



Indonesia's Middle-Income Class (Million People)





Economic Growth Scenario 2020-2024

Economic Growth, Percent

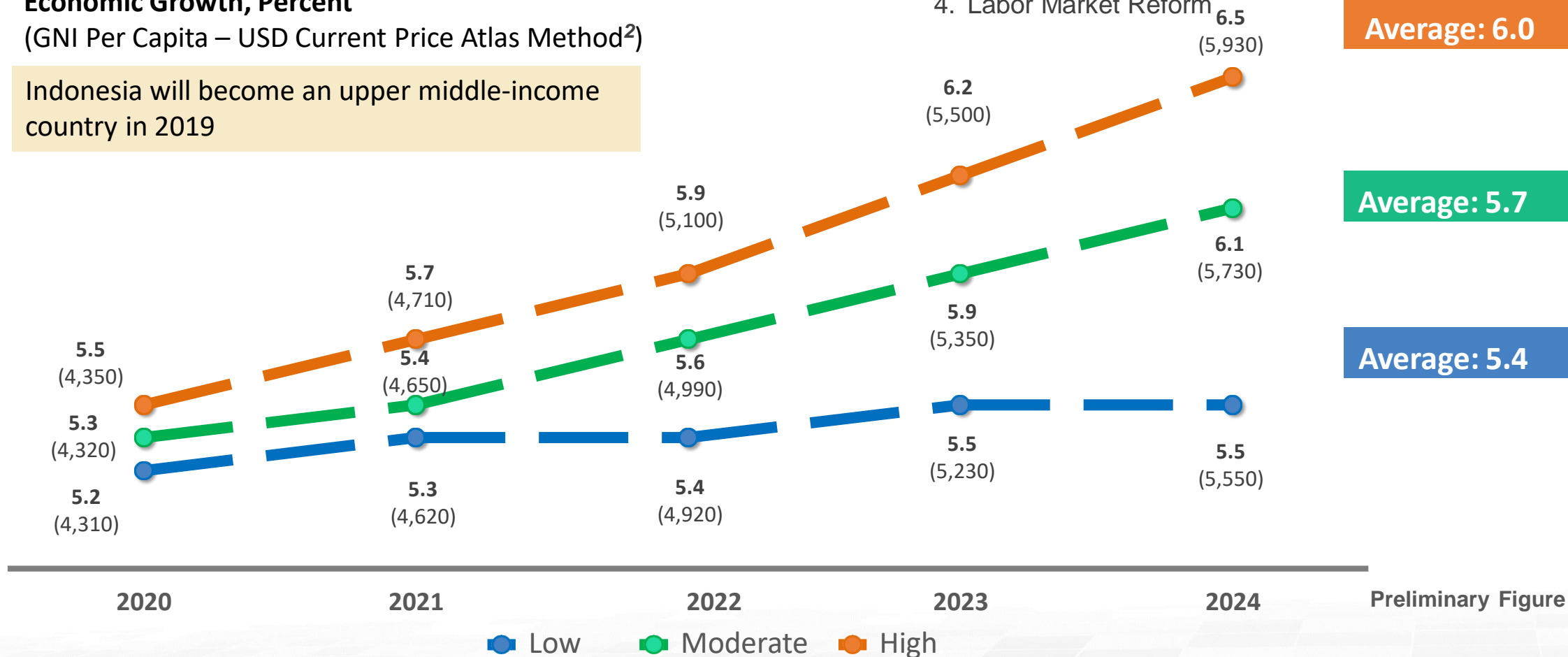
(GNI Per Capita – USD Current Price Atlas Method²)

Indonesia will become an upper middle-income country in 2019



The Keys to Increasing Growth¹:

1. Increased Productivity
2. Increased Investment
3. Human Capital Development
4. Labor Market Reform



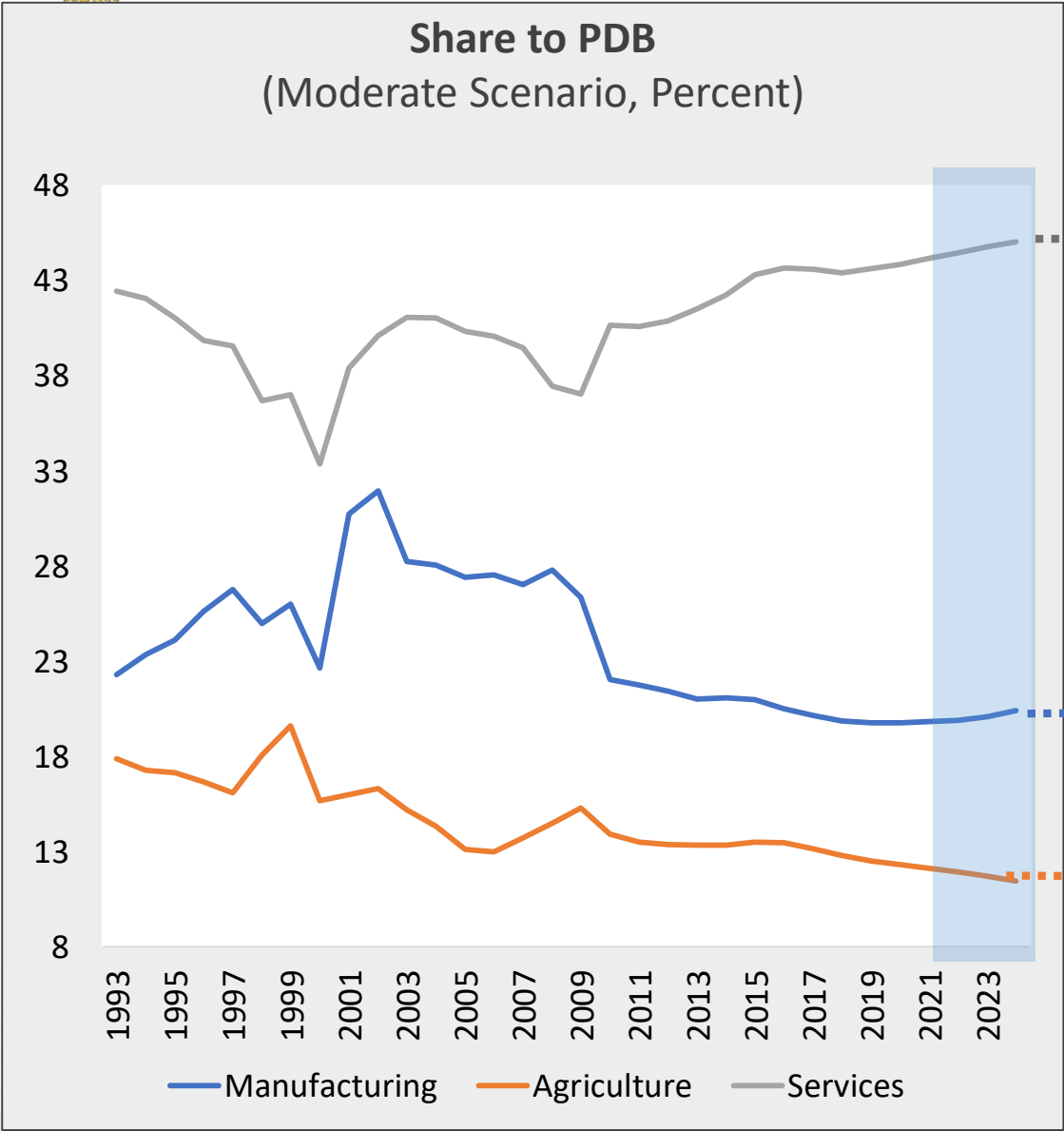
¹ Based on Bappenas' simulation as of April 2019 using Growth Accounting Method

² World Bank used this method to classifying the countries by income



Structural Transformation is The Key

Share to PDB
(Moderate Scenario, Percent)



Growth Average (Percent)

2015-2018

2020-2024
(Low High
Scenario)

Provisional Figures

REVITALIZING INDUSTRY

INDUSTRY

4.3

2015-2018

5.3 - 7.0

2020-2024

Improving the business environment
that supports industrial modernization
including through the industry 4.0
application

TRANSFORMING SERVICES

SERVICES

5.7

2015-2018

6.8 - 7.1

2020-2024

Spurring the high value-added services sector
which are driven by innovation

TRANSFORMING AGRICULTURE

AGRICULTURE

3.7

2015-2018

3.8 - 3.9

2020-2024

Increasing productivity and income
of farmers and fishermen



Development Target 2020-2024

Human Development Index
(value)

75.54



Poverty Rate
(percent)
6.5 – 7.0

Economic Growth
(percent)

5.4 – 6.0



Gini Ratio
(indeks)

0.370 – 0.374

Unemployment Rate
(percent)

4.0 – 4.6





SDGs as a New Development Paradigm



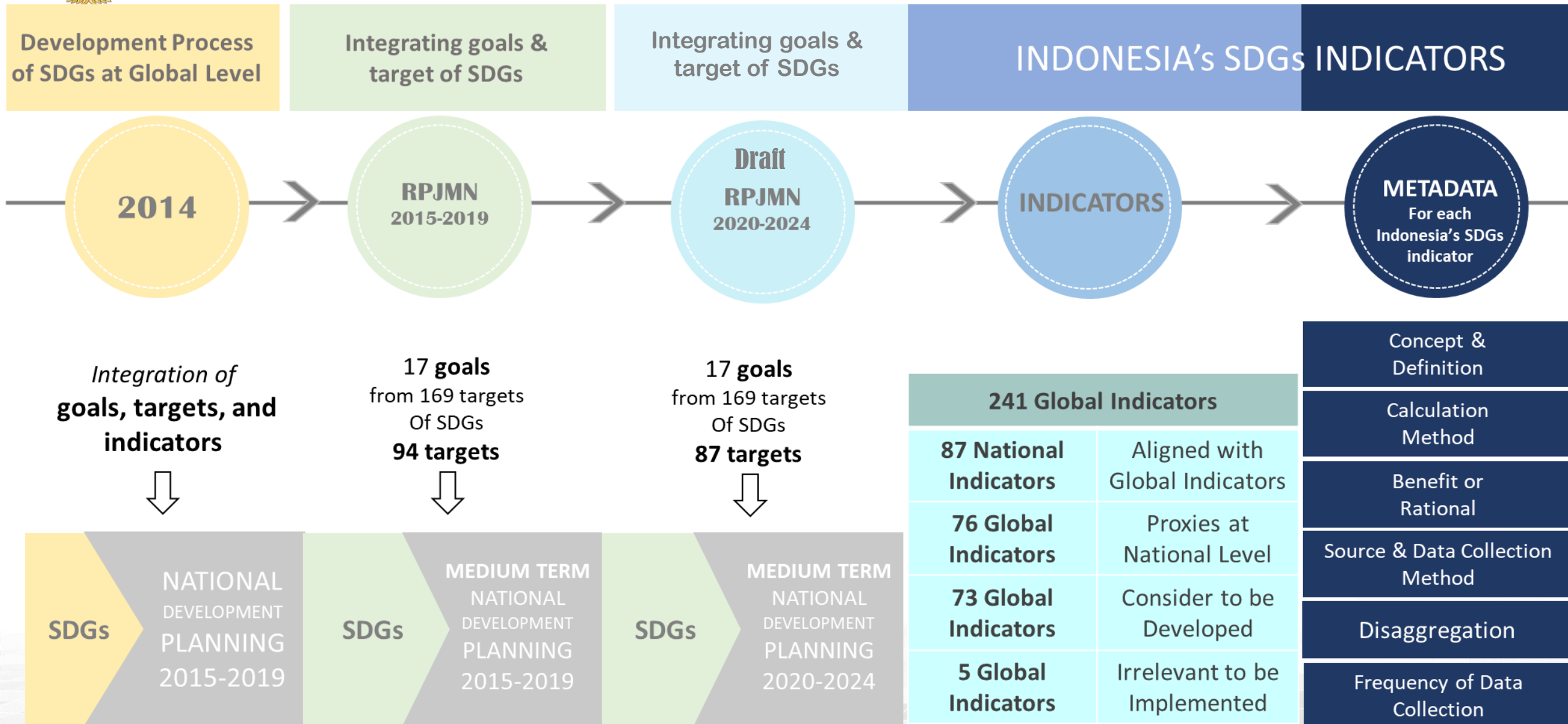
- Our rights
- Our duty
- Our problem
- Our opportunity



“No one left behind” : the imperative core principle of SDGs



Integrating SDGs Into National Development Planning





Mainstreaming SDGs into RPJMN 2020-2024

Indonesia with the high-middle income that is Prosperous, Fair, and Sustainable





3

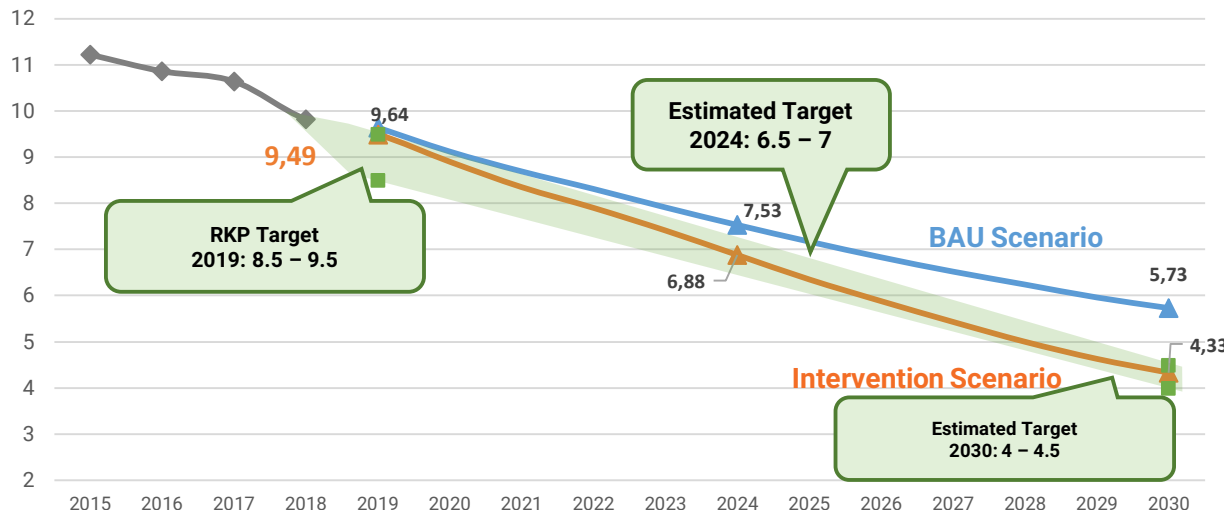
SDGs Roadmap – Strategic Document for Implementing SDGs



GOAL 1 NO POVERTY



1.2.1* Percentage of People Living Below The National Poverty Line



Having achieved the single-digit-poverty-rate would leave Indonesia with a bigger challenge

in eradicating the extreme poverty completely.

5.73%

Poverty rate in 2030 with business-as-usual scenario

4.33%

Poverty rate in 2030 with intervention in the range of **4-4.5%**

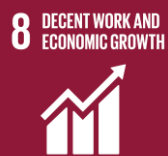
Projection method using World Bank, growth assumption, growth per decile, inflation and population

High quality social protection and basic services

- Stabilization of comprehensive and adequate social security for the poor and vulnerable.
- Integration of well-targeted subsidy and social assistance that increases the financial inclusion.
- Improvement of basic services quality through a reliable and responsive minimum standard services management.

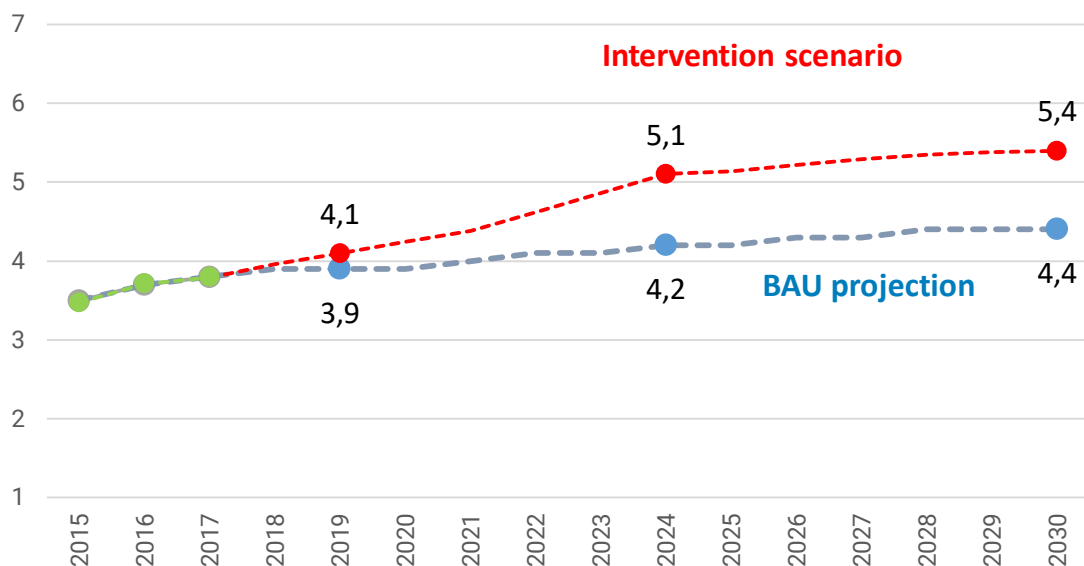
High quality social protection and basic services

- Stabilization of social assistance that is integrated with financial inclusion, especially for the poor and vulnerable.
- Development of technology-based innovation in basic services in all Indonesia.
- Synergy and cooperation among stakeholders (government, private sector, NGOs) in improving quality of basic services.



GOAL 8 DECENT WORK AND ECONOMIC GROWTH

8.1.1* Growth rate of real GDP per capita



One of the development objectives is to improve people's welfare

Policy Direction
2020-2024

Strategies

Acceleration of structural transformation through agricultural modernization, re-industrialization, and utilization of new sources of growth

- Increasing the use of suitable technology
- Increasing agricultural entrepreneurship and management
- Increasing agricultural business scale
- Improvement of agricultural products' standards and quality
- Strengthening industrial base
- Utilization of domestic market as source of growth and product innovation
- Implementation of *Industry 4.0*
- Boost manufacturing export that use medium-high technology

Policy Direction
2025-2030

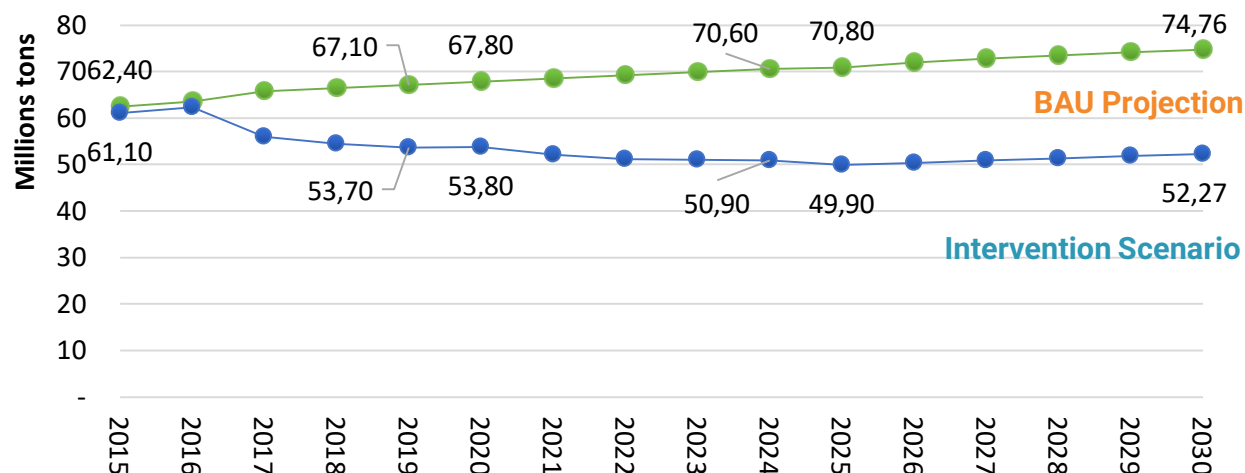
Strategies

Continuing structural reform policies through increasing economic productivity in an inclusive and sustainable manner

- Strengthening structural reformation policies
- Improving the economy productivity
- Implementation of inclusive growth and development and equitable distribution of income
- Maintain domestic price stability and international competitiveness
- Preserve the environmental sustainability



GOAL 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



74.76

Million tons

The amount of waste production in 2030 with business-as-usual scenario

52.27

Million tons

The amount of waste production in 2030 with policy intervention scenario

Data source: National Policy and Strategy (2017)

Improving the performance of reduction and handling of household's wastes including plastic waste

- | | |
|-----------------------------------|---|
| Policy Direction 2020-2024 | Strategies |
| | <ul style="list-style-type: none">• Drafting the Norms, Standards, Procedures, and Criteria (<i>NSPK</i>) in reducing household wastes and household-like waste.• Strengthening coordination between local and national governments.• Strengthening the commitment from executives and legislative institutions in national and local government in providing the budget for household waste reduction. |

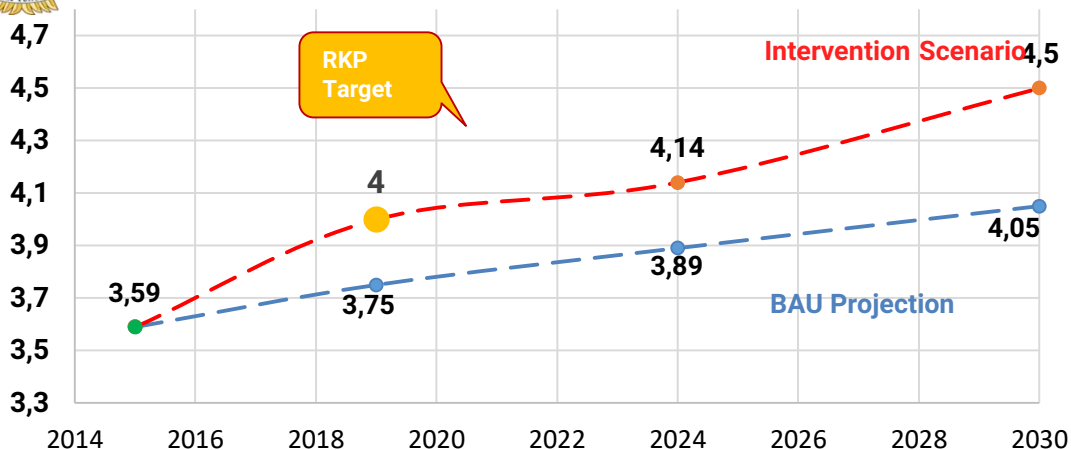
- Creating information system.
- Strengthening community's involvement through communication, information, and education.
- Application and development of incentive and disincentive system in households' waste reduction.

Strengthening the effort in reducing, handling, and utilizing waste

- | | |
|-----------------------------------|--|
| Policy Direction 2025-2030 | Strategies |
| | <ul style="list-style-type: none">• Optimization of Reuse, Reduce, Recycle.• Utilization of waste as a resource (alternative energy sources, sources of industrial materials, organic fertilizers, creative industries).• Implementation of Circular Economy.• Standardization of specific waste management services. |
- Strengthening mastery of clean technology to support the reduction of waste production.
 - Implementation of Extended Producer Responsibility.
 - Optimization of specific waste management.
 - Strengthened and synergized of the regulatory framework and institutional waste management
 - Reduction on carbon emissions sourced from wastes.



GOAL 16 PEACE, JUSTICE AND STRONG INSTITUTIONS



4.05

Anti-corruption attitude index in 2030 with business-as-usual scenario

4.5

Anti-corruption attitude index in 2030 with intervention scenario



Source of Data: BPS; BAPPENAS projection

Policy Direction
2020-2024

Strategies

Anti-Corruption System Reinforcement

- Improving the quality of public services.
- Developing the national integrity system.
- Strengthening the effort of corruption prevention within ministries/institution (controlled unit for gratification, PPID, LHKPN, LHKASN, PBJ, WBK, integrity pact, integrity zone).
- Developing a collective mechanism in preventing corruption involving non-governmental actors (civil society, private sectors, academicians, philanthropy, etc).

- Collaborative action in prevention of corruption, law enforcement, bureaucracy reformation, states finance, licensing and trading system.
- Development of Anti Corruption Education Center and disseminate prevention of corruption nationally.
- Refinement of Justice Collaborator and Whistleblower refinement.
- Development of integrated anti-corruption clearing house database.
- Petty corruption management through reasoning administration (non-judicial administrative action).

Policy Direction
2025-2030

Strategies

Optimizing Reinforcement of Community Integrity, Law Enforcement, and State Administrators

- Anti-corruption education and training at the national scale with the involvement of non-government actors.
- Integrating anti-corruption clearing house database with One Data Indonesia.

- Implementation of collective mechanism to prevent corruption that involve non government actors (civil society, private sectors, academia, philanthropy, etc) at the national scale.



4 **SDGs Financing Strategy**



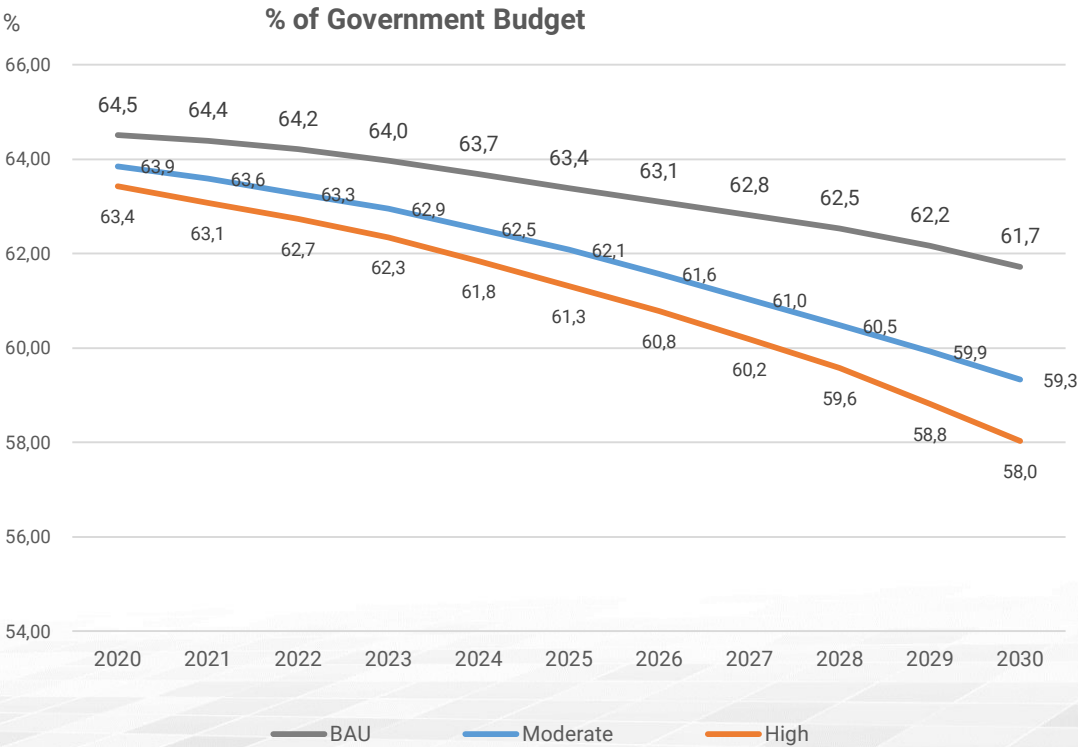
SDGs Investment in Indonesia and The Role of Non-Government

High scenario of SDGs Investment in Indonesia suggests that the **role of the government** will be less than business as usual, as the non-government actors are encouraged to provide more contribution and participation in the implementation of SDGs. In the high scenario, particularly, government budget allocation will **gradually decline from 63.4% to 58% in 2030**.

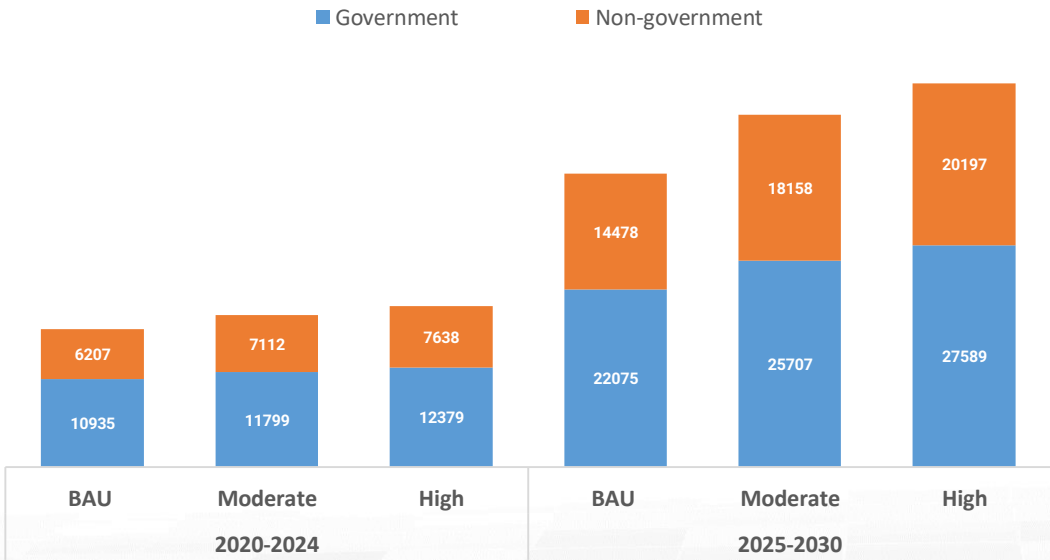
The amount of **non-government financing** – in high scenario – is needed as much as:

in 2020-2024: **Rp 7,638 Trillion**

in 2025-2030: **Rp 20,197 Trillion**



SDGs Investment Distribution (Trillion Rp)





Indonesia Financing Strategy For SDGs

Achieving the SDGs requires a surge in financing and investments. The new financing strategy is a necessity to help accelerate progress and complement efforts being made by champions of financing for sustainable development and longer-term investments from the private sector, philanthropy and other sources of innovation.

The Strategies

- Mobilization of the wider variety of resources that would be needed to achieve the SDGs will demand the development and leverage of a wider array of finance flows behind national priorities, including SDGs.
- Significant institutional reforms and coherent policies to ensure that key finance flows are fully developed and aligned with the SDGs.
- The different components of these key reforms has to be coherently designed, developed, and implemented.
- The government adopts a strategic approach to ensure that these reforms are correctly prioritized and implemented in a timely fashion.

This strategy demands systemic reforms and involves a wide range of areas, from public administration reforms to good governance and the strengthening of the management capacity of the central government and line ministries and sub-regional governments.





Implementing Financing Strategies for SDGs



Strengthening the quality of the budget

- Strengthen strategic resource allocation and results orientation of the budget
- Reduce the current level of subsidization and refinancing of SOEs
- Improve the balance between recurrent and development budgets in line with SDG needs
- Greater allocative efficiency within sectors, between sectors and in terms of the actual budgetary linkages with the plan
- Stronger collaboration with development partners

Scaling up private sector investment

- Strengthen Financial Deepening and Financial Inclusion
- Enable environment and regulatory frameworks to ensure private sector investment in SDGs inter alia, the development of innovative SDG-related financial instruments)
- Tax incentive to promote private sector in SDGs related activities (R&D, Vocational education, climate change, etc)
- Promote flows of private investment through PPP, CSR, Remittances, NGO, Phillantrophy, Zakat, etc

Deepening domestic resource mobilization

- Strengthen tax office
- Expansion of tax resources and non-tax revenue
- Stronger implementation of the tax modernization project, incl. computerization
- Close collaboration with financial institution

Establishing SDG financing hub

- Develop regulatory framework to establish SDG Financing Hub
- Establish the SDG Financing Hub with the support of UNDP
- Dissemination of SDG Financing Hub



5

Leveraging Digital/Creative Economy



Growth of Creative Economy

CREATIVE ECONOMIC GDP GROWTH

2019 - Rp 1,211 T GDP 2018 Projection

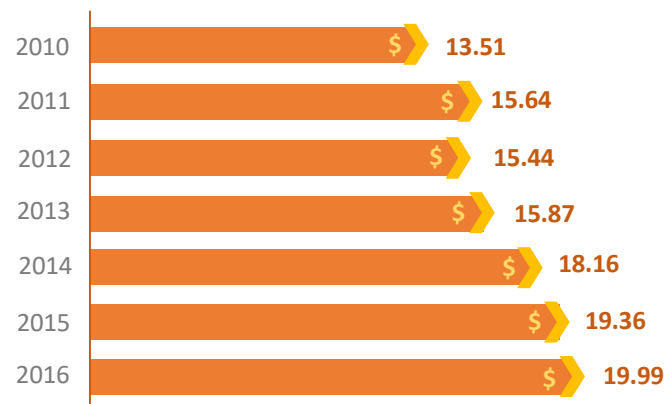
2018 - Rp 1,105 T

2017 - Rp 1,009 T

2016 - Rp 922.59 T

2015 - Rp 852 T

INDONESIA CREATIVE ECONOMY EXPORT VALUE (US \$ Billion)



INDONESIAN CREATIVE ECONOMY WORKER GROWTH TRENDS IN THE LAST 4 YEARS

YEAR	AMOUNT (IN MILLIONS OF PEOPLE)	GROWTH (%)
2017	17.43	4.13%
2016	16.91	5.95%
2015	16.06	5.22%
2014	15.46	2.94%

4 Highest Growth Sub Sectors in 2016



TV &
Radio
10.33 %



Film,
Animation &
Video
10.09 %



performing
Arts
9.54%



visual
communication
design
8.98%

Provinces with the Biggest Contribution of GDP in 2016

Yogyakarta 30.24%

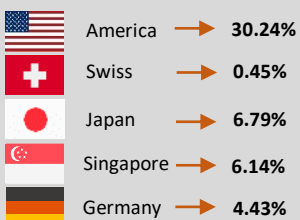
Bali 0.45%

West Java 6.79%

East Java 6.14%

North
Sumatera 4.43%

Top 2016 Export Destination Countries



Top 3 Exports of the 2016 (Sub Sectors)



Province with the Largest Exports 2016

West Java 30.24%

East Java 0.45%

Banten 6.79%

Central Java 6.14%

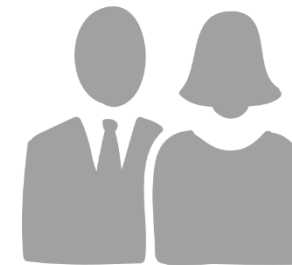
DKI Jakarta 4.43%

COMPARISON OF THE CREATIVE VS NATIONAL WORKFORCE



Creative Economy:

Male: 44.26%
Female: 55.74%



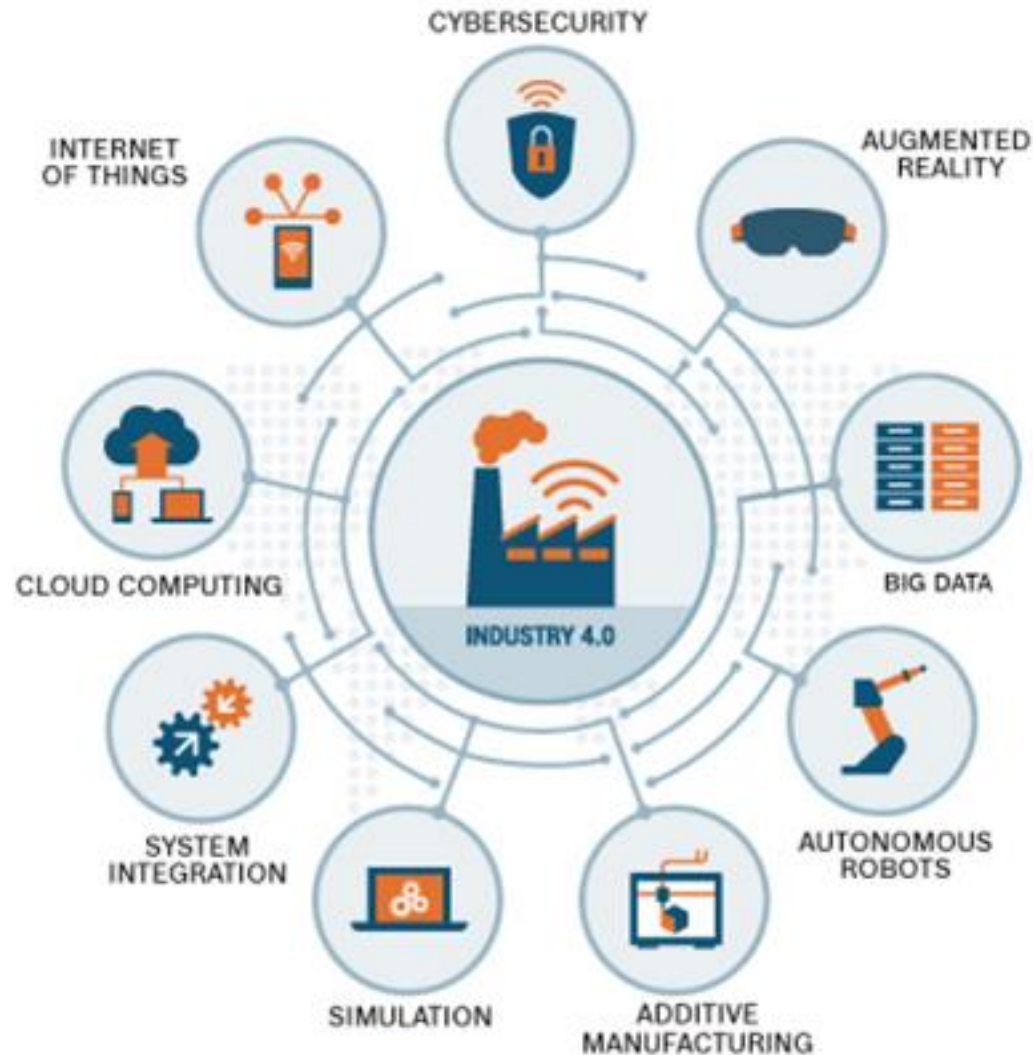
National:

Male: 61.60%
Female: 38.40%

Source: Bekraf dan BPS, 2018



Industry 4.0 and Digitation Create Different Challenges



Developed countries

- Systemic risk
- Governance
- Coordination problems with the private sector

Developing countries

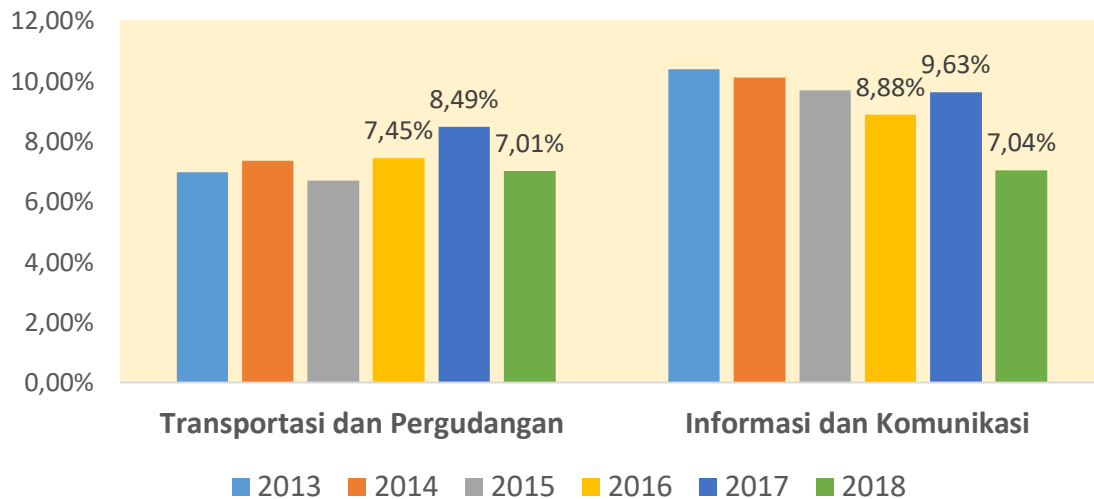
- High costs for industry implementation 4.0
- Connecting remote areas with low population density: Cost of Connectivity
- Difficulty creating new job opportunities (the impact of transformation)

Source: Global Uncertainties in Digital Era: Issues, Challenges, and Policies, Dean, School of Management and Administrative Sciences Chair, Department of Economics, 2018 dikuti dari website Bank Indonesia

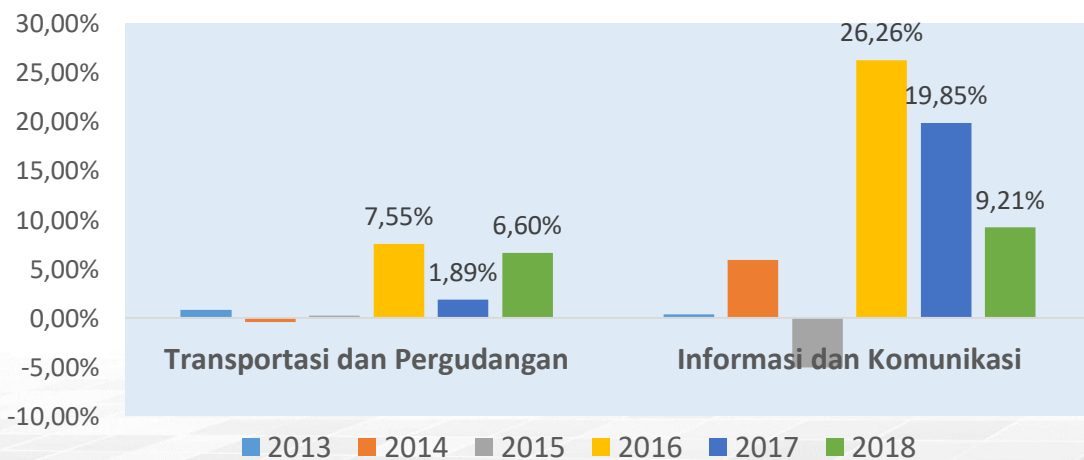


On The Other Hand, Digital Advancement has also Created Ample Economic Opportunities

Economic Growth



Worker Growth



- **The Information and Communication Sector** continues to grow above 7%, far above the national economic growth. This can be an indication of the increasing role of the digital economy in the national economy.
- The growth of the ICT workforce has also increased rapidly. 2018 increased by 9.21%.
- **The transportation and warehousing sector** also grew by more than 7%. This high growth is partly due to the growth of e-commerce and on-demand transportation such as Gojek and Grab.



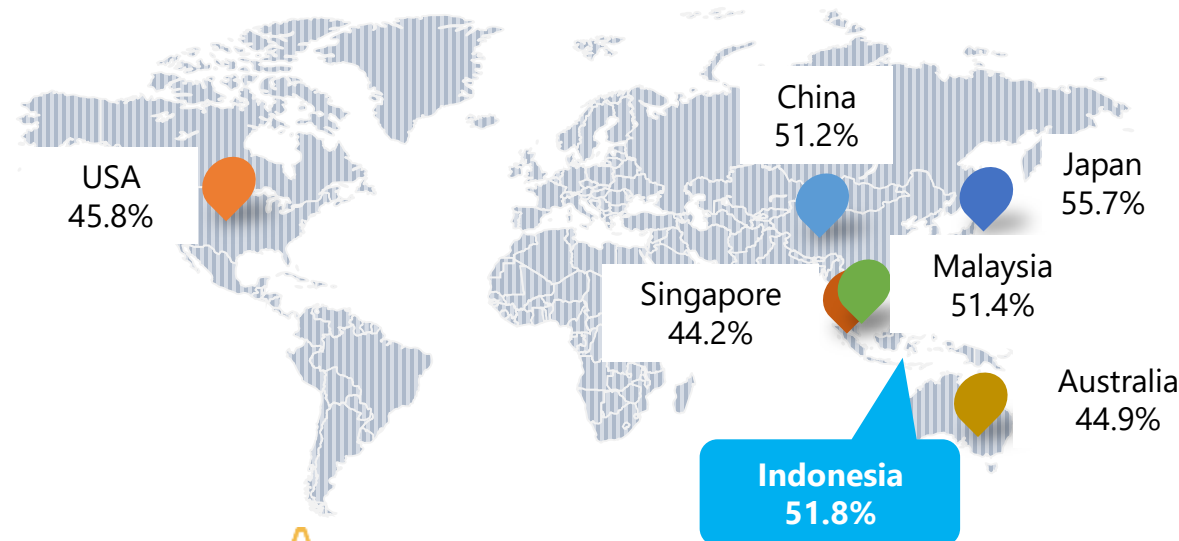
Digital Technology and Automation Creating Opportunities for Emerging New Types of Jobs

**52.6 milion
(51.8%)**

**Potential Job
Loss**

Job Loss \neq Unemployment

Technology encourages the creation of new types of jobs that are more productive and in the greater numbers.



49%
AGRICULTURE



65%
MANUFACTURE



53%
RETAIL TRADE



45%
CONSTRUCTION



64%
TRANSPORTATION
AND WAREHOUSING

**Potential
automation by
sector**

**Potential
automation by
sector**



**FISHERMEN,
CRAFTS
WORKERS**



**TAILOR,
MACHINE
OPERATOR,
WELDER**



**SALESMAN, RETAIL
TRADERS,
CASHIER,
TICKETS OFFICERS**



**CONSTRUCTION
WORKERS AND
BLACKSMITH**

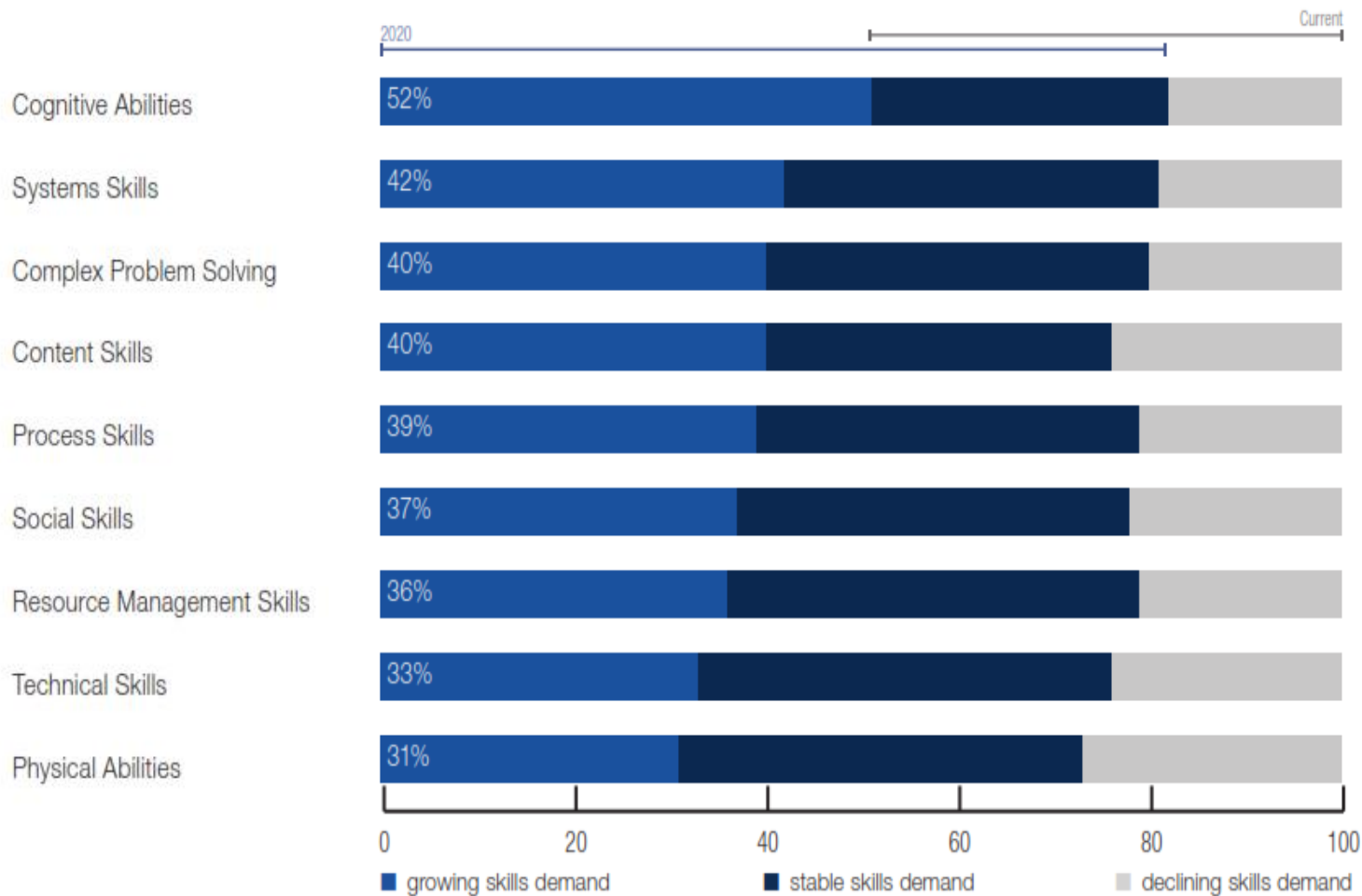


**EMPLOYEE
ADMINISTRATIO
N, WAREHOUSE,
AND OTHER**



Human Resource Development Must Lead to Future Industrial Skills Needs

Change in demand for core work-related skills, 2015-2020, all industries



- 1) Cognitive Abilities
- 2) System Skills
- 3) Complex Problem Solving
- 4) Content Skills
- 5) Process Skills

These are 5 skills whose demand growth will be highest based on several industry sectors, where previously the sector did not need it very much



Development of Creative and Digital Economy Strategy Until 2045

The creative and digital economy is enhanced in their role in development

Targets of Creative and Digital Economy Development

2025

Creative and Digital Economy as a Source of Growth

2035

Creative and Digital Economy as Drivers of Innovation-Based Economy

2045

Indonesia as One of the World-Class Center for Creative and Digital Economy

Development of Creative Human Resource Competencies



Scale Up Export-Oriented Creative Industries



World Scale Creative and Digital City / Cluster Strengthening



Strengthening Structure of Creative and Digital Economy





THANK YOU